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ABSTRACT

This module, first of a series of 36, contains a general overview of small business ownership and what it involves. In the first unit, the student is presented with a case study. This is followed by a definition of small business, kinds of small businesses, life as a small business owner, and personal qualities that small business owners should have. Learning activities are divided into individual activities, discussion questions, and a group activity. Other units discuss planning a small business, setting up a small business, choosing a location, getting money to start, being in charge, organizing the work, buying and keeping track of supplies, setting prices, advertising and selling, keeping financial records (revenues and expenses), making sure you have enough cash, keeping your profits high, and keeping your business successful. Each unit contains a case study, discussion of the unit subject matter, and learning activities. A module summary and quiz complete the document. (A teacher's guide is available for this module.) (CT)

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GETTING DOWN TO BUSINESS:

What's It All About?

Carolyn McFarlane

May 1981

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INTRODUCTION

How are you going to use your job skills after you finish school?

Have you ever thought about starting your own small business?

This module describes people who have started and managed different kinds of small businesses. It gives you an idea of what they do and some of the special skills they need.

You will read about

- being a small business owner
- planning a small business
- setting up a small business
- choosing a location
- getting money to start
- being in charge
- organizing the work
- buying and keeping track of supplies
- setting prices
- advertising and selling
- keeping records of revenues
- keeping records of expenses
- making sure you have enough cash
- keeping your profits high
- keeping your business successful

You will also have a chance to practice some of the things that small business owners do.

Then you will have a better idea of whether a career as a small business owner is for you.

After you finish this module, you might want to study another module that describes a business in the vocational area that you are studying.

UNIT 1

Being a Small Business Owner

Goal: To help you see what small business ownership is all about.

Objective 1: Define small business and small business owner.

Objective 2: Name at least three personal qualities you should have as a small business owner.

Objective 3: List at least five things you will have to do in running a small business.

PEGGY BECOMES A SMALL BUSINESS OWNER

Peggy Miller studied cooking, sewing, homemaking, and child care in high school. She got a job at a day care center after graduation. Although she got along well with everyone, after a few years she was bored! She didn't like working for a boss, either. She wanted to do something on her own and to earn more money.

Peggy wanted to start a business for the tourists who came to her old colonial town. Then she had an idea--an old-fashioned candy shop! Her Aunt Martha had an excellent fudge recipe she could use. Her cousin George had a candy business nearby. Peggy had worked there one summer and had gotten some good ideas. George could give her advice on starting her business.

Peggy quit her job, moved in with friends to save money, and began to plan. She knew that over half of all businesses fail in the first five years. She'd have to work hard to make hers succeed. She started making fudge at home and selling it to her friends. She also looked for a place to set up shop. It took her quite a while to find the right spot, but she kept trying. Finally she found a tiny shop with a kitchen in back, right next door to a big tourist hotel.

Peggy used her savings and borrowed a large amount of money from her relatives. Then she was able to get a loan from the bank. She decorated her store in a colonial theme and named it for her aunt--"Aunt Martha's Confectionery." She also hired Mark part-time to check in the supplies she ordered, to help sell, and to clean up after closing.

Peggy made fudge all morning. She figured out prices for new candy in the afternoon. She did the books at night. She met often with George and her father, who was an accountant, for advice. Peggy loved it all! When there were problems (like the winter no tourists came and Peggy needed more customers), she and Mark would get together and think of a solution. If the first idea didn't work, she would try something else. Peggy finally solved the problem of no tourists by getting brides to buy her homemade candy for their wedding receptions.

Being a Small Business Owner

What Is a Small Business?

A business is an organization that sells products or services as a means of income. There are over 12 million businesses in the United States. Over half of these are small businesses that have no more than four employees.

Small businesses are alike in several ways. Small businesses:

- have one or two owners who make all the decisions and do most of the work;
- have a small number of workers (the owner and zero to four employees);
- have only one or two locations;
- require a relatively small amount of money to start and run; and
- earn a fairly small income every year compared to the large, well-known businesses in the same field.

Kinds of Small Businesses

Small businesses are all around you--clothing and shoe stores, restaurants, service stations, beauty shops, and auto repair shops. Small businesses are involved in retail sales (the sale of products, like food or clothing, to the final customer), in services, in manufacturing, or in wholesale sales. People running service businesses often have a special skill that their customers do not have, or they do a job to save their customers time. They may clean, repair, or remodel your goods (such as fix your car) or do a certain job for your home or business (such as mow your lawn or do your income tax).

Manufacturing businesses make the products that are later sold to the customer. Small manufacturing businesses make all kinds of things such as sailboats, machine parts, and handmade leather goods. Wholesale businesses buy products from manufacturers and sell them to retail businesses. They collect products from many places, store them, and ship them to retailers when they are needed. For example, a person owning a wholesale food business might collect fresh fruits and vegetables from many farms and sell them to retail food markets.

What Is a Small Business Owner?

First Peggy was an employee at the day care center. She had a boss who made most of the decisions, and she received wages for every hour she worked. When Peggy quit her job at the day care center and started making and selling her own fudge, she became a small business owner. She no longer had a boss; she was the boss. She now owned, organized, and ran her own show.

Peggy's life as a small business owner went through two phases:

- At first, Peggy had no employees. She did all the work herself. She did not have a store either. Because her business was small and simple, she only had a few bills. She was able to keep most of the money she earned.
- Later, Peggy hired Mark and rented a shop. Not only did she have to make candy now, but she also had to supervise Mark and run the shop. She had more responsibilities than before. Since she also had more expenses, her salary was a bit lower. However, Peggy had the joy of starting her very own business! She had the hope, too, that in a couple of years her store would be quite prosperous.

Many people starting small businesses start out as a one-person business in their home. If their business grows, they may become employers of other workers and may buy or rent a store or office.

Personal Qualities Small Business Owners Should Have

Peggy has many personal qualities that will make her a good small business owner. The list that follows gives one description of the "typical" successful small business owner.

WHAT MAKES A GOOD SMALL BUSINESS OWNER?

1. Good small business owners have drive. They:
   - are "self-starters" and like working on their own;
   - like to take charge of things;
   - can make good decisions in a hurry;
   - have plenty of energy and like working hard for what they want;
   - are not afraid to take risks; and
   - finish what they start.

2. Good small business owners think clearly and have a good imagination. They:
   - have good business ideas and can think up new ways to solve problems;
   - like to plan before they start a job; and
   - are not afraid to ask for advice.

3. Good small business owners are leaders and can work well with people. They:
   - like people and can get along with them;
   - like to lead and can get others to follow; and
   - do what they say so people trust them.

4. Good small business owners can perform many different jobs at the same time.

Not all small business owners have all these qualities. The more of them you have, though, the greater chance you have of doing well in small

business and liking it. You may have been born with some of these abilities. Others you can work to develop. However, if you have very few of these and are not interested in working to develop them, you probably won't make a good small business owner. You might prefer being an employee over being a small business owner. Small business ownership is not for everyone!

What Small Business Owners Do

In Peggy's candy business, she had many different jobs to do--all at the same time. If you become a small business owner, you will also have the following jobs to do:

Summary

There are many small businesses of all types in our country. Small business owners have many jobs to do and need many abilities. They must have drive. They must be able to think clearly and have a good imagination. They must also be a leader and be able to work well with people. Now you know a little more about the career of small business ownership and can begin to ask yourself, "Is this for me?"

Learning Activities

Individual Activities

1. The phrases below describe different kinds of jobs. Look at each phrase and decide whether it describes an employee or a small business owner. Fill in the correct answer in the space provided.

   a. _____ Has a store with a few sales people

   b. _____ Must pay business expenses before receiving a salary

   c. _____ Works for someone who owns a gas station

   d. _____ Is paid by the hour

   e. _____ Has no boss and zero to four helpers

   f. _____ Does the work but does not make many of the decisions

2. Put an x in front of the five companies listed below that are probably small businesses.

   _____ Ford Motor Company

   _____ Macy's Department Store

   _____ Joe's Barber Shop

   _____ Del Monte Fruit Canning Company

   _____ Main Street Shoe Store

   _____ Bell Telephone and Telegraph

   _____ Quick TV Repair

   _____ Homecleaning by Horace

   _____ Elisa's Dress Boutique

3. Give examples of three retail businesses, three service businesses, one manufacturer, and one wholesaler.

Retail Businesses	Service Businesses
_____	_____
_____	_____
_____	_____

Manufacturer	Wholesaler
_____	_____

Discussion Questions

1. Look at the chart describing the "typical" successful small business owner. Which of these qualities does Peggy have? Give examples from the case study to support your opinion. (For example, if you think she is a good problem solver, tell why.)

2. Why do you think some people like owning their own businesses? What are some of the disadvantages?

3. List all the things Peggy had to do in order to start her candy store. What responsibilities does she have now that it is started? What responsibilities does Mark have?

4. Think about the usefulness of Peggy's schooling and her work experience. Discuss other small businesses that might have been good choices for her. Explain why.

Group Activity

Invite a successful small business owner in your town to come speak to your class. Choose the owner of a retail or service business where you shop.

Make up a list of questions ahead of time to ask your guest. Include questions about:

- why he or she started the business;
- kinds of tasks an owner must do;
- special abilities a good small business owner must have;
- whether the business is successful;
- how the owner judges success;
- how family members help out in the business; and
- whether the owner enjoys his or her job.

UNIT 2

Planning a Small Business

Goal: To help you plan what your small business will be like.

Objective 1: List five steps to take in deciding whether to start a small business.

Objective 2: List four things to think about in choosing the products or services of your business.

Objective 3: List three advisors used by small business owners and one other source of business information.

LUIS PLANS A GUARD SERVICE

Ever since he worked part-time as a reserve policeman, Luis Ramirez wanted to start a guard service in the New York City suburb of Stonesville. At age 29, he had some savings and wanted to know whether his dream would work.

Luis read in a business magazine that, depending on the company, guard services offered 24-hour patrol service to businesses and homes, answered emergency calls, did detective work, and sold alarm systems. He talked to Alex Fratessa, who had a similar guard business in nearby Mason City. "My business is growing rapidly," said Alex. "Insurance costs are high, but so are the profits! I think this is true with other guard businesses too." The Stonesville police chief told Luis, "I think a private guard service would do well here. The crime rate is rising, and the police department is overworked. And there are some wealthy people who might want your service."

Luis read in the newspaper about several break-ins in the west end of town. He visited several of these homeowners and asked them if they would be interested in guard services. They all said "Yes" and "We sure wish you had been around last week!"

Luis knew that Ace Guard Service was already patrolling some of Stonesville's small businesses. From the Yellow Pages, he found out that Safety-Plus, Inc., which sold security alarm systems to homes and businesses, also had a branch in town.

Luis decided to focus on the wealthy families in Stonesville. He named his company Prestige Home Protection Service. He planned that his guards would drive by homes several times a day and answer emergency calls in 15 minutes. They would also pick up mail for people on vacation and act as guards for weddings and parties. He contacted a lawyer to find out what legal steps he had to take, and his business began!

Planning a Small Business

Making Your Decision to Start a Business

Luis took several steps in deciding whether to start his own business.

- He asked himself, "Do I want to go into business and become self-employed? What business do I want to start?"
- He listed the information he needed to know about the business.
- He figured out where to get the information he needed.
- He collected the information.
- He looked at the information and made his decisions--whether to start a business and what his business would be like.

You can follow these same steps in deciding whether you should start other kinds of businesses, too.

Information You Will Need to Plan Your Business

(1) The products or services that you could offer. Luis discovered that different companies in the protection business offer slightly different services. In other businesses, too, there are choices of the products and services to sell. In the women's clothing business, for example, you can sell evening clothes, clothes for working women, or sports clothes. You can also offer delivery service, special shopping advice, and free alterations. You should try to find out all the possible products and services your business could offer. Then you can decide which ones you might want to include in your business, depending on trends, customers, and competition.

(2) Trends that may affect the business. Luis wondered if there was a demand for guard services. The fact that the number of guard services in the country was growing made him feel that people needed and wanted

the service. Luis also wanted to know whether people would continue to use the service in a few years. If people's ideas changed or business conditions got worse, he needed to know whether people would still use his service.

Luis should also have studied about new inventions that would help or harm his business. If there was a better system for calling patrol guards in emergencies, he might be able to improve his service and get more customers. Other new equipment might make his service unnecessary, however.

Sometimes changes in people's living habits cause changes in the need for a certain product or service. For instance, if families in Stonesville began working closely with the police on "neighborhood watch" programs to stop crime, Luis' guard service might not be needed.

Luis should also find out whether there are any special difficulties in this type of business. He found out that guard services had to buy a lot of insurance. In other businesses there may be difficulties like finding or keeping workers or getting supplies cheaply. If there are situations like these, you must decide if you are prepared to deal with them.

(3) The kinds of customers you could get. Luis needed to know which groups in his town would want to use his guard service and why. He knew that usually customers of a business are alike in some way. They may all be businesses of a certain type and size. They may all be individuals with similar income, jobs, or education. Customers may all be around the same age. They may be of the same sex or nationality or have the same special interest. Luis' possible customers were (1) small businesses and (2) wealthy homeowners.

If you ran a sporting goods store specializing in tennis, skiing, and backpacking equipment, you would probably have customers around the same age (young people--ages 15-34). Customers of a store selling golfing or boating equipment would probably be a slightly older group of people in the high income range. Customers using a bookkeeping service would

probably be small business owners who could not afford to hire a full-time bookkeeper for themselves.

Usually you cannot please all possible groups of customers. You should pick the one group that is most able and willing to buy your product or service.

(4) The kind of competition you have. Luis needed to know if he had any competition (other businesses in his area that were selling similar products or services). If so, what products and services did these businesses sell? Who were their customers? What were their strong and weak points?

He found that the other guard business in town was working with small businesses. There were no protection businesses for private homes. Luis decided he would concentrate on families, since he had no competition in that area. He also decided not to sell home alarms since another company was already selling them. If Luis had decided to start a guard service for businesses, he would have had to do a better job than Ace in some way. For example, he would have to offer extra or better services or lower prices.

Picking a Business Image

Once Luis decided he would start a guard service, he needed to decide what his particular business would be like. What did he want people to think of when they heard about his business? His business image would be determined by:

- the products or services he offered, and their quality;
- the appearance and attitude of his employees;
- his prices (for example, discount prices or "deluxe" prices); and
- his business name and motto. (For example, Luis' motto could be "Prompt, personal service 24 hours a day.")

Where to Get Business Information and Help

Luis needed help in starting his business. He will also need help as he runs his business. He will have to find the following advisors.

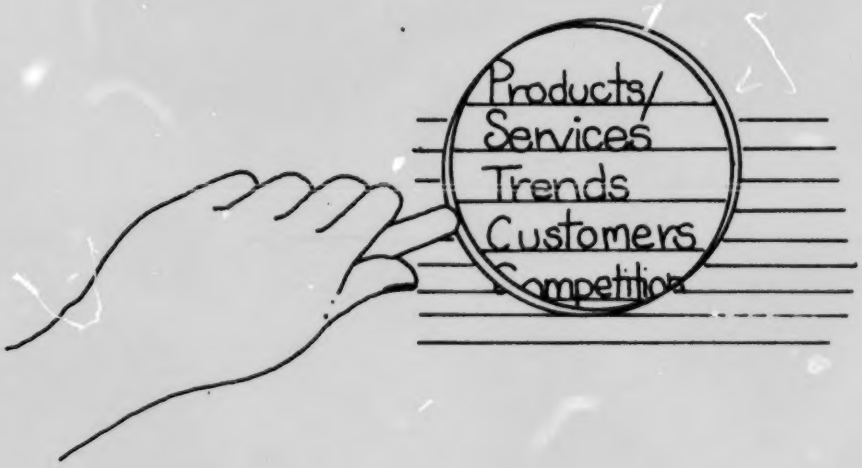
- A lawyer will help him choose the best legal form for his business and give information on taxes and business laws. The lawyer can help Luis avoid legal difficulties and handle them if they occur.
- An accountant will help Luis set up a good financial record-keeping system. He or she will prepare and explain financial statements and complete income tax forms. The accountant can also give advice on how to improve the business' finances.
- A banker will give Luis financial and management advice. The banker can also help Luis borrow money to start his business and to keep it going.
- A realtor will help him find the best location for his business and will help him buy or rent the office or shop.
- An insurance agent will tell Luis what kinds of insurance he needs to protect his building, employees, and customers. The agent will then give him the insurance just right for his business.

Luis can also get (free) business information from:

- friends and relatives with business experience;
- business people who sell products and services to his company;
- the public library;
- trade associations made up of other people in the same business field;
- the local Chamber of Commerce;
- the U.S. Small Business Administration (with offices in all 50 states);
- a university small business development center; and
- other federal, state, and local government agencies.

Summary

To plan a small business, you must collect a lot of business information, study it, and make decisions about what your business will be like; this is called market research. You should find out what products or services you can offer and what business trends can affect your business. You should study the kinds of customers you can reach and the kind of competition you will have. You can get help from your lawyer, accountant, banker, realtor, insurance agent, and others. You will pay for some of this help, but you can get free business advice from experienced friends, relatives, and government agencies.



Learning Activities

Individual Activities

1. List all the ways Luis got information about guard services. Then list a few other ways he could also have gotten information.

2. Look up "Guard and Patrol Service" in the Yellow Pages of your phone book. For one or more of the businesses listed, fill in the blanks below. Describe the customers served and the services offered. What do you know about the business image of these businesses from their ads?

Business Name	Customers	Services	Business Image

3. Write a short paragraph describing Luis' business image. Answer the following questions.
   - What kind of attitude and appearance should Luis' guards have in order to keep up this image?
   - What price level do you think Luis should charge for his service (low, medium, or fairly high)? Why?

4. List all the possible groups in your community that might use guards. Assuming there is no competition at all, which group do you think would be most willing and able to use a private guard service? Why?

5. Make a list of a lawyer, accountant, and insurance agent in your town who could give help to a small business owner. (Write down names of people you know, or use the Yellow Pages.) Talk to one of these people and ask how he or she makes a small business owner's job easier.

Discussion Questions

1. Suppose you are thinking of opening a record shop in your town. List a few trends that would influence your business. How could you take advantage of these trends to make your business more successful?

2. Describe the different kinds of customers a record shop could have. What kinds of products and services would each group want to buy?

3. List the steps you will need to take in order to decide whether to open your record shop. Also list the kinds of information you will need to plan your record shop. For each, give one place you can go to get the information.

Group Activity

Make plans to start your record shop. Have different members of your group collect the information you will need (see the text and discussion question #3). Make sure you study your competition in town or in your neighborhood.

Discuss what you found out. Then decide what your new shop will be like. Pick the group of customers you want to sell to. Decide what you should sell, including new products or services to make your shop special. Decide on a business image, a business name, and a motto.

(If you don't think a new record shop could succeed in your town, give several good reasons.)

UNIT 3

Setting Up a Small Business

Goal: To help you make decisions about buying, organizing, and licensing your small business.

Objective 1: Describe the three forms of business ownership.

Objective 2: Describe three types of business opportunities (ways of getting into business).

Objective 3: List two business permits that may be needed to start a small business.

A SOLE PROPRIETORSHIP OR A PARTNERSHIP?

Willie Nelson had been tuning cars in a large shop for several years in a small city in Michigan. Before that, he'd had other mechanic jobs. Then he said, "I think I'll start up a Quik-Tune franchise business like the ones in Detroit. I'd tune cars all day, and I'm real good at that. I don't know much about handling money, but I hear the Quik-Tune people teach you that in a special class before you start."

Willie had heard that franchise buyers have to have a lot of cash to start, especially to build a new building. He wasn't sure if he would have enough, even with help from friends. He wondered, too, "Do I really need Quik-Tune's famous name to help me get customers? People in town are keeping their cars longer, and they are taking better care of them. They also like to save time. I'm sure the folks in town would gladly give me lots of business, even without Quik-Tune's name."

Willie's old friend, Jesse Johnson, had another idea. "I've been running my uncle's used car dealership for five years. I know how to keep books, and I've hired and fired a few workers. I can get about $25,000 to put into the business. Why don't we start the business together and be partners?"

The idea sounded good to Willie! Together, they could afford to buy the local auto repair shop that was for sale. Bud Sorenson, the owner, was retiring, and his son didn't want to carry on the business. The building and equipment were old but usable.

In high school, Willie and Jesse had been good friends and had worked well together on the football team. "But in business, that's something else! I've heard that sometimes people get burned when they go into business with buddies," Willie said to himself. He talked about it with his wife, with Jesse, and with the bank for a long while. Then he made his decision. He and Jesse signed an agreement, and they became partners in J&W Ready Tune.

Setting Up a Small Business

Willie had to make certain legal and business decisions in buying and organizing his small business. He had to:

- pick the form of ownership he wanted;
- choose the type of business opportunity best for him; and
- get necessary business licenses.

Forms of Business Ownership

There are three main forms of business ownership:

- sole proprietorship;
- partnership; and
- corporation.

Willie considered the first two.

A sole proprietorship is a business owned by one person (sole = single; proprietorship = ownership). Sole proprietorships are the most common form of business ownership. Businesses with a single owner can be formed easily with little "red tape." Owners of this form of business are free to make their own business decisions. They don't have to consult others in the business. Therefore, they can decide quickly and make changes easily. They receive all the profits of the business.

Willie knew that sometimes single owners make poor decisions because they have no one to give them advice. Sometimes they have a hard time getting enough money for their business. He knew that if his one-owner business did poorly, he would have to take all the responsibility. If his business owed money, he would have to pay all the bills even if he

had to sell the business and some of his personal belongings (like his car or house).

A partnership is a business owned by two or more people. The partners share in raising money, making decisions, and taking profits. They are all responsible for business failures and debts. Usually the ideas, abilities, and money of all the partners go into the business.

However, partners often have disagreements. Sometimes a partner may suffer for the mistakes of another partner. For example, if the partner who handles the money gets the business into debt, the other partner must share in paying the debt.

Willie and Jesse made plans to avoid some of the possible problems of a partnership. They wrote an agreement before their business began. They decided ahead of time what duties each one would have and what decisions each one would make. They agreed how to divide the profits and share any losses. They also decided what to do in case either of them wanted to leave the business.

Another form of business ownership that Willie and Jesse did not consider is a corporation.

A corporation is a group of owners ("stockholders") that acts as a single business unit. The people who own pieces of the business (shares) are called stockholders. Stockholders collect part of the corporation's profit, depending on the number of shares they own.

The stockholders elect the board of directors and vote on important matters. The board of directors makes general business policy. It chooses officers to make the day-to-day business decisons.

Corporations get money to run the business by selling stock. If the corporation has a business loss, it must take responsibility for its bills, but the individual stockholders are protected by law from losing

their personal belongings. (However, in some closely held corporations, stockholders have to pledge personal belongings to get business credit.)

Corporations are more complicated to form than sole proprietorships or partnerships and usually more costly. The state requires that special papers be filed and certain fees be paid. Also, corporations must pay more kinds of taxes than sole proprietorships or partnerships.

Ways of Getting into Business

Willie considered two types of business opportunities--buying an existing business and starting a franchise business. He and Jesse could also have started a new business all on their own, "from scratch."

- Buying an existing business from another owner has certain advantages. The new owner does not have to do as much planning about the business, and he or she already has a certain number of customers. Owners may sell a business because they are breaking up a partnership or retiring. However, they may also want to sell because the business is doing poorly.
- Starting a new business allows the owner to make all the decisions about the business, "from the ground up." Sometimes small business owners start new businesses because they believe the area has lots of customers and little or no competition. They may also start a new business where there is competition because they feel that they can offer a better product or service.
- Getting a franchise means opening a business that offers the same products or services and has the same name as a number of other stores. Individual business owners own the branch office or store but pay a certain amount of money to the parent company in exchange for use of the name, advertising, and other business help. For example, they may receive training on how to start the business and how to manage employees. Willie found out that he could receive information from Quik-Tune on how to tune all kinds of cars, how to set up the business, and how to keep financial records.

Franchise owners often can buy goods and equipment at lower prices through the parent company and can get help with business loans. In franchise businesses, the business idea has been tried in other places and has been successful. Many people have already heard of the company and are willing to become customers. Therefore, it's possible to have good profits even in the beginning phase of the business.

There is often a high starting fee to pay to the parent company, however. Every year Willie would also have had to pay a certain percent of his revenues. He would have less freedom to do things his own way. If he did not run the business the way the parent company wanted him to, he could lose the franchise contract and maybe some of the money he had invested.

Business Permits You May Need

Depending on the kind of business and the laws of their city, county, and state, small business owners may have to get:

- permission to build or to occupy space (building, zoning, and "use and occupancy" permits);
- a city or state license "to do business," including various tax ID numbers;
- a health permit (for example, for businesses selling food); or
- an occupational license in order to do certain kinds of work (for example, state licenses for all nurses).

Willie and Jesse only had to get one of these permits to start their business--a "use and occupancy" permit. They had to tell the City Building Department what kind of business they would have in their building and pay a $10 yearly fee.

Summary

As a small business owner you will have to decide whether your business will be a sole proprietorship, a partnership, or a corporation. You must also decide whether you will buy an existing business, start a new one, or get a franchise. You may also have to get certain business licenses before you start.

Learning Activities

Individual Activities

1. Write short definitions of the words sole proprietorship, partnership, corporation, and franchise.

2. Below are several phrases describing the three forms of business ownership. In the blanks provided write the correct form of ownership: sole proprietorship, partnership, or corporation.

   a. _____ This form of business is easy to start and has several people running it.

   b. _____ The one person owning this form of business can lose most of his or her personal belongings if the business fails.

   c. _____ In this form of business, funds can be raised by selling pieces of the company.

   d. _____ Disagreements in this form of business may be hard to settle because there is no board of directors to make general business policy.

3. Call your local City Clerk and Health Department to find out what kinds of permits your town requires to start (a) a tune-up shop, (b) a second-hand furniture store, and (c) a restaurant. Try to get a general idea of why these permits are required.

Discussion Questions

1. List some of the "pros and cons" of buying an existing business vs. starting a new business.

2. Give as many examples of franchise businesses as you can. In what fields do franchises seem to be most common?

3. Discuss some of the possible problems of a partnership. What are some of the disagreements that could occur? What are some of the things that one partner could do that would hurt the other partner(s)?

4. Do you think Willie made the right decision in choosing to start a partnership with Jesse instead of starting a franchise by himself? If he had gotten a Quik-Tune franchise, what kinds of help would the parent company have given him? What obligations would Willie have had to the parent company?

Group Activity

Assume that your group (of five or less) has gotten permission to start your own business--a snack shop at school sports events. Suppose you need $200 to start your business. Decide how much money each of you will contribute and whether you want to become a partnership or a corporation. List the "pros" and "cons" of each.

a. If you decide to become a partnership, write up a short agreement describing:
   - how the jobs will be divided;
   - how the profits will be shared; and
   - what will happen if one person wants to leave the partnership.

b. If you decide to form a corporation, elect two members to the board of directors. The board of directors should then choose the president of the company, who will make the everyday decisions. The whole group should also decide how profits will be divided. Should some of the profits be kept in the business to help it grow? If so, what percentage should go to stockbrokers?

UNIT 4

Choosing a Location

Goal: To help you choose a business location.

Objective 1: List five things to think about in choosing a business location.

Objective 2: List four ways you can get information to help you choose a business location.

FRANK DECIDES WHERE TO LOCATE

Frank Vitale, an experienced chef and waiter, was thinking about starting a health food restaurant. He knew that health food restaurants were very popular across the country, especially among the well-educated middle class. Competition was mainly from other medium-priced restaurants, such as family restaurants or those offering foreign food.

Frank wanted to locate in a certain Colorado town. He had studied the people living there and the competition. There were no other health food restaurants in town, and he felt that his would be successful. He needed to pick a specific location in town. Here are his notes on the three spots he liked best.

- "Site #1 is on Central Avenue in the downtown business district. It used to be a medium-priced Greek restaurant that went out of business. The area has many high-rise office buildings and several exclusive dress shops. There's a very successful, expensive French restaurant nearby and a theater giving modern plays about six blocks away. The building rents for $500 per month and does not need to be remodeled.

- "Site #2, a former coffee shop, is on College Avenue in a neighborhood shopping area near the university. Students, single working people, and young middle-class couples live in the area. There are a large drug store and a movie theater in the same shopping area, and two blocks away is a family hamburger restaurant. The rent is $400, and the building needs to be redecorated a bit.

- "Site #3 is located on Aspen Drive, the main road leading out of town. About one-half mile before coming to the building, the number of stores and homes begins to decrease and farms appear. Lower-middle-class factory and farm workers live in the nearest group of homes. The building, which rents for $300, used to be a bakery, so it needs some remodeling."

Frank decided to rent Site #2. After six months, his business was doing quite well. The number of customers was increasing each week.

Choosing a Location

Small business owners must pick their business location carefully. This means picking a spot near your customers. If the location is wrong, people won't come to the business, and the business will fail.

Either renting or buying a building involves a lot of money. If you rent, you may have to agree to stay in the building for a few years once you move in. Therefore, it is important to pick the best building and location for your money the first time around.

Frank made a wise location decision based on research. He didn't act on his own feelings or a friend's advice. He asked himself, "What do I need to find out?" He listed the information he needed to answer his question. Then he got the information, studied it, and made a choice.

Information Needed to Choose a Business Location

Frank got the following information before he opened his restaurant on College Avenue.

- The number of people living in the area. From a friend, Frank knew that he needed at least 1,000 people living close to his restaurant to get enough business to succeed. Each type of business needs a different number of people in the area to succeed. If a business sells special products or services only to certain groups (such as cameras or computer services), it may need a much larger number of people nearby.

  Sites #1 and #2 both had enough people for Frank's restaurant, but the shop on Aspen Drive probably did not. Frank was not sure that he could get enough business there from people driving through, either.

- The kind of people living in the area. Frank, like other small business owners, chose an area where he felt that a large percentage of the residents would want to buy his products and were able to do so. He studied the income, education, and age level of the people in all three areas. He also thought about the type of restaurants each group might like. He thought that his restaurant probably would not be fancy enough for the people living and shopping downtown (Site #1). He decided this because of their high income level and the fact that the French restaurant was succeeding while the less expensive Greek one had failed.

  Frank decided that the people living near Site #3 probably could not afford to go to restaurants very often. When they did go out to eat, he thought that they would probably prefer a different kind of restaurant.

- The kind of business area. Frank needed to think about the type of business district he wanted to be in and the businesses he wanted to be nearby. He also had to find out where his competition was.

  The three locations Frank thought about were in different types of business areas--downtown, on a main road outside of town, and in a neighborhood shopping area. He also could have looked for space in a large shopping center or along a highway. Each type of area has its "pros" and "cons." Two important things to ask are: "Is the area easy for customers to get to?" and "Does the store or office have enough parking?"

  Frank wanted to locate near other businesses that served the same kinds of customers as his restaurant. If he was located near a movie theater (Site #2), he thought he would get more young, middle-income customers than if he were near a theater showing live plays (Site #1). Site #3 had very few other businesses near it, and Frank decided that this would make it hard for him to attract customers for his restaurant.

  Frank didn't want to locate near his main competition--another health food restaurant. He thought, however, that being close to other types of restaurants (like the hamburger restaurant) could actually help his business. People would think of his area when

they wanted to go out to eat, and often they would choose his restaurant.

The same may be true for other small businesses. It would be bad for too many shoe stores to locate in the same area, but a few grouped together may be a good idea. People like to shop where there is a wide choice of shoes.

- The business history of the area. Frank needed to know how the other businesses in the area were doing. He also found out about the success of the business that had been in the building before. The Greek restaurant on Central Avenue, which probably had similar customers to what Frank's would have, failed. That told him that his business might fail, too, in that location. The bakery on Aspen Drive was not doing very well, either, but the coffee shop on College Avenue was. Frank thought that a more modern restaurant in that location would bring in even more business.
- The condition and cost of the building. Frank had to find a space that was the right size, had the right equipment, and was the right price. He decided that the rent at Site #1 was a bit high. The rent for Site #3 was low, but Frank would have had to spend money removing the bakery shelves and remodeling the kitchen. Frank thought that the rent he would have to pay at College Avenue was fair. He also figured that he could redecorate quite cheaply.

How to Get Information about Choosing a Location

Frank got his information in many ways.

- He asked his realtor about building sites in town that were for rent and got advice about which ones were best for his restaurant.
- He looked at street maps and visited each location. He also inspected the building carefully.
- He talked to neighbors (business people and customers in the area) and to the business owner who used to occupy the building he was thinking about.
- He got business information from the local Chamber of Commerce.

- He used information about the people and businesses in the area from books put out by the U.S. Department of Census.

Summary

Having a good location gives a business a greater chance of success. Before picking a location, you should study the number and kinds of people living in the area. You should find out about the kinds of businesses in the area, their business history, and the cost and condition of the building. You should use as many kinds of information as possible to help you decide. These include visiting the area, talking to neighbors and other business owners, and studying information from various business organizations.

Learning Activities

Individual Activities

1.a. Pick a certain business you are interested in. Talk to someone at the Chamber of Commerce and find out how information from that agency can help business owners choose a location.

b. For the same business, ask a realtor to suggest a good location in your town. Find out why he or she chose that spot.

2. On a map of your town, pick a spot that you think would be good for an exclusive men's clothing store, a small, quick-service grocery store, and a landscaping service. Make your decision based on the type of business district and the people living in the area. (Assume that you have no competition.) Explain why you chose the spots you did.

Discussion Questions

1. Do you think Frank chose the right location for his health food restaurant? Would he have succeeded in either one of the other two spots? How could he have changed his business to get more customers at Sites #1 and #3?

2. Why would you need more people in the area to start an antique store than a small food market?

3. When should you locate your business next to your competition, and when shouldn't you? Give examples for several different businesses.

4. Suppose you want to start a document delivery service. You would deliver letters and small packages between businesses and to and from the airport. One location you are thinking about used to be a dress shop. It went out of business. Does this mean your business will fail too? List other information you would need to know about the location before deciding if it's good for you. Try to think of other things that would be helpful besides those listed in the text.

Group Activity

Find a store or office in your town that is for sale or rent. Decide on the type of business that would do well in this location. To do this, interview the past business owner or other business owners in the area, if possible. Visit the building, look at the neighborhood, and talk to a few people living in the area. Collect any other information you can.

Present your information to the class and tell why you picked the business you did. If you think the location is poor for all kinds of businesses, tell why.

UNIT 5

Getting Money to Start

Goal: To help you plan how to get money to start your business.

Objective 1: List four sources of money to start your small business.

Objective 2: List three kinds of information you must give your banker to get a business loan.

Objective 3: Describe the five sections of a business description.

Objective 4: State the purpose of a statement of financial need and list its three parts.

CALVIN AND HENRY APPLY FOR A LOAN

Calvin and Henry Fong were experienced barbers who decided to open a barbershop in San Francisco. "There were no other barbershops in our area that give quick, cheap haircuts and shaves," Calvin reported. "Many of our neighbors told us they wanted a 'no frills' barbershop close by. We decided not to worry about the people who wanted fancy hairstyling. They could go to the new salon on Market Street."

Calvin and Henry found a store for rent in the shopping district that seemed an ideal size and location for their business. The store needed to be redecorated. Some new barber sinks also had to be installed. The contractor asked for $1,800 to do the job. The brothers bought the dryers, barber chairs, and other furniture they needed for $2,000. Before they opened the shop, they bought a large amount of supplies such as shampoo, shaving cream and lotion, razor blades, and towels.

They also needed money for the rental deposit, the utility deposit (electricity, gas, and water), and pre-opening advertising. Other start-up expenses included a business license, accountant fees, and insurance.

Calvin and Henry figured that their expenses for the first three months would include a salary for Mike, a part-time employee, rent, utilities, supplies, advertising, and "other" expenses. Neither Calvin nor Henry planned to take a salary for the first four months. Calvin would live off of his savings, and Henry would work in his father's restaurant part-time. Henry said, "We had to spend about $7,000 in the first three months. About $5,000 of this we had to spend before we even opened for business."

Calvin had $1,500 to invest in the business, and Henry had $1,000. Calvin's brother-in-law offered to lend them $2,000. They also applied for a business loan from their friend, Mr. Lee, at the Imperial Garden Bank. They asked for money to cover expenses for the first three months. Mr. Lee approved the loan.

Getting Money to Start

Calvin and Henry were well on their way to opening their business. They listed the expenses they expected to have and the amount they hoped to earn. They figured how much money they would need and collected the money from several sources.

Where to Get Money to Start

Some of the money to start a small business will come from sources "close to home."

- Your own money. Calvin and Henry put a large part of their savings into their new barbershop. They could also have gotten cash by selling their car or other belongings.
- Gifts, loans, and investments from family and friends. Calvin and Henry got a personal $2,000 loan from a relative interest-free. We didn't want any other investors, because we didn't want to split the yearly profits more than two ways," says Calvin. "Besides, investors like to help make the decisions, and I think two 'business managers' are enough!"

The rest of the money to start a business usually comes from a business loan.

- Banks and credit unions. Calvin and Henry applied for a loan from Mr. Lee at the neighborhood bank. If they had been members of a credit union, they might have borrowed money there.
- The Small Business Administration. The Small Business Administration (SBA) might also have been able to help Calvin and Henry, especially if they couldn't get a bank loan. The SBA ends money directly to small business owners and helps them borrow money from banks.

Most people apply for a business loan to get at least some of the money they need to start their business. With a business loan, you have to pay back a part of the loan money every month, plus a certain percentage of interest. (Interest is the extra money you pay for the privilege of using someone else's money.) If you can put a large amount of your own money into the business, then you will have less loan money to pay back, and less interest.

Information Needed to Get Business Loans

Calvin and Henry needed to give three kinds of information to the bank before their loan could be approved.

1. Personal information. Calvin and Henry had to fill out forms telling about their schooling, work experience, and finances. They also had to show that they knew something about barbering and had good business sense. They had to have some of their own money to put into the business.

   The bank wanted to know whether they would be able to pay back the loan, even if the business failed. Therefore, Mr. Lee asked for information about Calvin's and Henry's other job skills and required collateral for the loan. (Collateral is a valuable possession like a house or car that is given as a pledge that the debt will be paid. If the loan is not repaid, the bank may sell the possession to recover the money it lent.) Calvin offered his house, which was partly paid for, as collateral for their business loan. He also explained that he could go back to working in his uncle's barber shop in Fresno if his business failed.
2. Business description. The brothers had to explain what their business was going to be like and why they thought it would succeed. A business description usually tells about:
   - the business' products or services;
   - the location of the business and type and condition of the building;
   - the kind of competition the business will have;

- the kind of customers the business will have; and
- ways of making the business special and "beating" the competition.

3. Financial information about the business. To get a business loan, Calvin and Henry had to fill out several financial forms. One of these was a form showing how much they expected to earn and spend every month during the first year. (An example of a slightly different version of this form--called the profit and loss statement--will be given in Unit 14.) They also had to give information to show their business really could make the level of sales they predicted. The bank was interested in knowing when the business would be able to start earning a profit--that is, when the income would be larger than expenses. It also wanted to know how profitable the business would be. The bank wanted to lend to a business that would use the money wisely and would be able to repay the loan.

   Calvin and Henry also had to fill out a form telling the bank how much money they needed to borrow (a statement of financial need).

The Statement of Financial Need

Calvin and Henry's statement of financial need appears on the following page. The left side of the form lists the amount of money they thought they would need for the first few months of business (expenses). Calvin and Henry chose three months. Other small business owners may want to borrow money to pay expenses for the first six months or first year of business. Calvin and Henry's expenses were divided into start-up expenses (money needed right at the beginning to open the business) and operating expenses (money needed after start-up to run the business every month). By adding these two types of expenses, Calvin and Henry figured out the total starting expenses for the first three months.

The top right side of the form lists the amount of money Calvin and Henry put into the business. This included money from their savings and a loan from a relative. This amount is called total money on hand.

STATEMENT OF FINANCIAL NEED

Expenses (For First Three Months)

Start-up Expenses		
Rental Deposit		$ 200
Utilities Deposit		40
Repairs and Renovations		1,800
Equipment and Furniture		2,000
Supplies		300
Advertising		100
Other		450
TOTAL START-UP EXPENSES		$4,890
Operating Expenses (for first 3 months)		
Salary (for Mike)	($200 x 3)	$ 600
Rent	($300 x 3)	900
Utilities	($30 x 3)	90
Supplies	($50 x 3)	150
Advertising	($50 x 3)	150
Other	($100 x 3)	300
TOTAL OPERATING EXPENSES		$2,190
TOTAL EXPENSES (For first 3 months)		_____

Money on Hand

Owners' Cash on Hand	$2,500
Loan from Relative	2,000
TOTAL MONEY ON HAND	_____

TOTAL EXPENSES	_____
TOTAL MONEY ON HAND	_____
TOTAL LOAN MONEY NEEDED	_____

The box at the bottom right is for figuring out how much is needed from the bank. By subtracting the amount of money they had from the amount of money they needed, Calvin and Henry calculated the <u>total loan money needed</u>.

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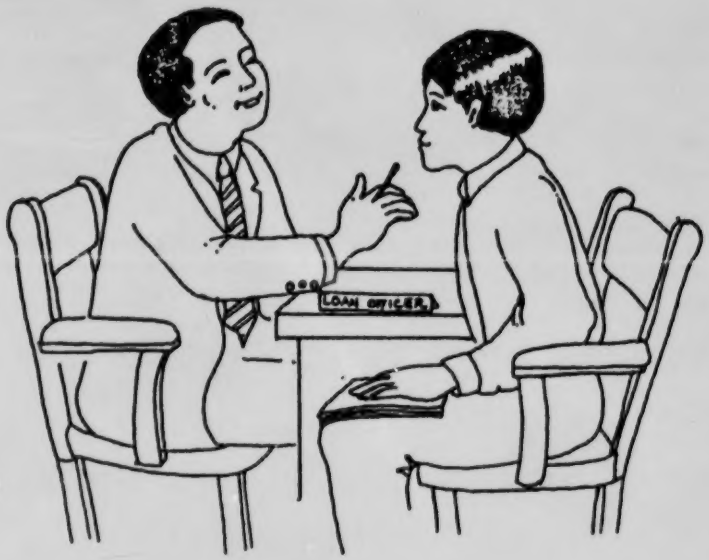
Summary

In starting your own small business, you will probably use your own money, get loans from friends, and borrow from a bank, credit union, or the Small Business Administration. To apply for a bank loan, you will need to tell the bank about your work experience and finances, what your business will be like, the level of sales you expect your business to have, and how much money you will need to get started. One form that may be filled out for the bank is the Statement of Financial Need.



Learning Activities

Individual Activities

1. List the names of the three main totals given on Calvin and Henry's statement of financial need. List the three main sources from which they got money to start their barbershop.

2. Write a business description that Calvin and Henry could have used to get a business loan. Include the five parts described in the text. For each part, write one short paragraph of about three sentences. Remember that this description should show the bank that Calvin and Henry's business is well planned and likely to succeed. Based on this and other information, the bank would decide whether to give them the loan.

3. For Calvin and Henry's statement of financial need, compute the total expenses (for the first three months) by adding all the figures in the left-hand section of the form.

   Compute the total money on hand by adding all the figures in the top right section.

   Enter the two totals in the bottom right section of the form. Then compute the total loan money needed by subtracting money on hand from expenses. This is the amount Calvin and Henry will need to borrow from the bank.

Discussion Questions

1. What types of personal information do you think Calvin and Henry gave Mr. Lee? How do you think they gave him these different types of information? (For example, did they give information about their schooling through a school transcript, a short written paragraph, or an outline? Or do you think they gave him the information orally during the loan interview?)

2. Calvin and Henry used their own money and loans to pay their expenses for the first three months. After the business starts, what other source of money will they have? How will they use this money? List other ways Calvin and Henry will use their money as the business grows.

3. Suppose Calvin and Henry bring in $900 from barbering in the first month and their sales grow by $300 each month. Their operating expenses will be $730 a month for the first six months. When can Calvin start taking $800 out of the business as salary?

Group Activity

Role play Calvin and Henry's talk with Mr. Lee at the bank. Select individuals in your group to play the two brothers and Mr. Lee. Calvin and Henry should give Mr. Lee personal information, a business description, and a statement of financial need. Mr. Lee should ask questions in order to decide if Calvin and Henry are a good business risk. Mr. Lee should decide whether to give a loan based on how well Calvin and Henry present their case.

UNIT 6

Being in Charge

Goal: To help you be a good "boss" in your small business.

Objective 1: List three steps you should take in organizing new workers.

Objective 2: List five steps you should take in hiring a new worker.

Objective 3: Describe several ways of keeping your workers happy.

ED HIRES AN EMPLOYEE

Ed Olsen, 42, a former mechanic, started his own auto parts and auto repair shop after being injured in an accident. He decided to manage the shop and sell auto parts and to hire Sal, a good friend who was a mechanic, to work for him. Now, two years later, Ed had so much repair work that he needed more help.

Ed decided to hire someone to do oil changes, lubes, and tuneups. The new employee would also clean the shop every day. Sal would do the major repair work. Ed would continue to keep track of auto parts. He would take all customer orders and organize the work for the two mechanics. He'd also do all the banking and recordkeeping and would check all shop equipment weekly to make sure it was working well.

Ed advertised for a "mechanic's assistant" in the local paper. Four people applied for the job. Ed hired Mario, a young man who had worked for a year and a half pumping gas. Two months after Mario started work, Ed noticed that Sal seemed unhappy and asked why. "I'm having trouble with Mario. He's learning the job quickly, but he won't help me on big jobs. He says he's not supposed to do major repairs. He seems to think that he should take orders only from you." Sal also said, "I've been working harder than ever recently and don't seem to be getting any rewards."

"Thanks for letting me know, Sal," said Ed. "I'll try to do something about this." Ed talked with Mario. Mario seemed a bit afraid of Sal because Sal knew so much about cars. He didn't want to try other repair work because he didn't think he could learn. "That's funny, Mario!" said Ed. "Sal tells me you're a fast learner and he'd like to teach you more if you're willing." Mario said he was. Ed decided to make some changes. Sal would decide how all work would get done and by whom. Sal would also receive a raise. When Mario had extra time, he'd help Ed check in parts. Sal and Mario agreed to try the new plan.

Being in Charge

Working with your employees can be the most enjoyable--and the most difficult--part of running a small business. The success of your business depends, to a great extent, on doing a good job of "being in charge" of your employees. If you don't have enough workers, you won't be able to get your work done. If your workers do poor work or are rude to customers, you may lose business. If they quit or are fired, you will have to spend extra money finding and training new ones.

How to Organize Your Workers' Tasks

Some small business owners have no people working for them. As the business grows, the owner may hire at least one worker. When the owner starts feeling nervous about all the work there is and thinks that it all won't get done, it is probably time to hire one or more employees. First, he or she should figure out if there are going to be enough earnings to pay workers and should get organized in the following ways:

- Decide on the tasks your employees will do. Ed tried to think of tasks that could be done easily by someone else so that the shop's work would be done efficiently and in a cost-effective manner. This meant giving up tasks that he was not good at or that took too much of his time. He wanted to hire someone else to do the mechanical work because of his injury. He gave Mario the job of cleaning up because he felt it was more important to do other jobs himself--for example, the financial recordkeeping. Later, Ed gave Mario the job of checking in supplies to save himself time for other things.

  Ed also plannned to have similar tasks done by the same person so that person could specialize in one part of running the shop. He didn't think it made sense for a worker from the repair shop to keep books or sell parts in the store.

When hiring workers or changing the tasks they do, it is a good idea to put instructions in writing. A job description tells a worker what to do and how to do it. It also explains how the job ties in with the other jobs in the business.

- Hire good workers. After Ed knew what tasks he needed done, he tried to find people who could do them well. He decided what training and work experience he wanted his workers to have. He also had to decide on a fair salary to offer.
- Explain the job clearly. Once Ed hired Sal and Mario, he told them exactly what their jobs required. He also made sure that Mario got the training he needed to learn his job. He forgot, however, to explain to Mario that sometimes he would have to help Sal on extra jobs.
- Give the worker responsibility for the job. Ed trusted his workers to do their jobs well. He checked their work from time to time, especially at the beginning, but did not "breathe down their necks." He tried not to do all the work himself. "I know that if I try to run a 'one-man show,' I'll burn out very quickly."

The more responsibility you give your workers, the more authority you should give them as well. Sal, for example, was supposed to see that all the car repairs got done. His problem was that he didn't have the power to get Mario to help him. When Ed explained to Mario that Sal was "boss" of the repair shop, it was easier for Sal to get the work done.

How to Hire a Worker

This is the best way to hire a new worker.

- Decide what the worker should be like. Ed wrote down what the tasks of each worker would be (a job description) and also listed what training and experience he wanted his worker to have. For Sal's job, he wanted someone who knew a lot about car repair and had worked as a mechanic before. For Mario's job, he wanted someone with a high school diploma and general work experience

only. Ed thought that the person taking this job could easily be trained at work. Also, since he was offering a fairly low salary, he realized he would not be able to get someone with a lot of experience.

- Look for workers. Ed got his workers in two ways. When he needed his first mechanic, he called his old friend Sal, whom he knew was perfect for the job. To fill Mario's job, he advertised in the newspaper. He could have put a "Help Wanted" sign in his window, asked his friends about people looking for mechanic work, or contacted a local high school, possibly one with a Trades and Industry program. The State Employment Service would have listed his job opening in its files, too. When a person with the right skills came in looking for a job, he or she would have been referred to Ed.
- Look at job applications. Each person applying for Mario's job had to fill out a written job application. This had questions about education, other jobs held, and special skills. Ed read these applications and weeded out one person who had no work experience and one who had changed jobs often. He decided to talk to the two people who looked best for the job.
- Have interviews. Ed talked to Charlie Peterson and Mario. He asked them questions about what they did at their last jobs and what their strengths and weaknesses were. He tried to find out whether they would fit in well in his business. He also told them more about what he expected in a worker.
- Talk to past employers. Frank called Mario's and Charlie's old bosses to find out if they had been good workers. Charlie's boss said that he had been fired from that job. Since Mario's boss gave a good report, Ed hired him for the job.

How to Keep Your Workers Happy

In one sense, keeping workers happy is not the goal of a small business. However, if workers are happy, they usually work better and the business is more successful. Sal, for example, did not work well when he

was having problems with Mario. Soon customers would have noticed his poor work, and Ed might have lost business.

These are three ways of keeping employees happy.

- Communicate with your workers. Ed let Sal and Mario know what their job responsibilities were. He also told them about his daily work plans. He thanked them when their work was good or when they did something extra. He gently pointed out ways they could improve. He also listened to their ideas about ways of improving the business. When trouble came up, he let them help identify the problem.
- Understand your workers' needs. Some business owners think that their workers are mainly interested in money. Although money is one reason for working, it is often not as important as other things. Sal worked as a mechanic because of his interest in cars. He also wanted credit for his good work and wanted to be friends with the other workers. Workers need job security. They want to know that they won't be laid off as soon as business gets slow. They want a clean, attractive place to work. They want to be treated fairly and to have the chance to be promoted to better jobs. You should understand the needs of each of your workers and try to meet them. This leads to happier workers and better work.
- Handle problems carefully and quickly. Sometimes workers may have problems at work because of troubles at home or disagreements with other workers. They may find their work hard or boring or may feel that they have been treated unfairly. As a small business owner, you should be on the lookout for these kinds of problems. If you see an unhappy worker, ask him or her privately what the problem is. Listen to employees' concerns and ideas. Say that you want your workers to be happy and that you need their help to make the business run well. Promise to work with them in finding solutions to problems as soon as possible.

Summary

As a small business owner, you must know how to divide the work in the business and how to hire the right workers for each job. You also must be able to solve problems with your workers. If workers are good at their jobs and happy at work, your business will probably be more successful. You will also experience the personal rewards of being a business owner.

Learning Activities

Individual Activities

1. Make a list of all the tasks that Ed, Sal, and Mario were responsible for at the end of the case study. Do you think the work was divided wisely? Give a title to each of their jobs.

	Title	Tasks
Ed		
Sal		
Mario		

2. Place the following steps in hiring a worker in the right order by numbering them 1-7.
   a. _____ Advertise the job
   b. _____ Choose the best person for the job
   c. _____ Decide what experience the worker should have
   d. _____ Talk to former bosses
   e. _____ List the tasks that must be done
   f. _____ Interview the best choices
   g. _____ Read completed job applications

3. Find two or three ads for a mechanic in the newspaper. Make a list of all the kinds of information given in the ad.

4. Write a newspaper ad for Mario's job. Use the information in the case study plus sample ads from the newspaper (Activity #3 above) to help you. Put the job title or other important information in large print. Include a short description of the job and the experience and training needed. Give information about wages and work hours, too.

Discussion Questions

1. Do you think Ed handled his problem with Sal and Mario well? What did he do to keep Sal and Mario happy? What are other things he could have done? Suppose Ed's auto parts and repair business continued to grow. Ed had too much to do. What could he do to divide the work differently and keep everyone happy?

2. Make a list of some of the difficulties workers may have on the job. Suggest how the business owner could work to solve each one.

3. Discuss some difficulties you have had with your parents, teachers, and friends that were the result of poor communication. How can you avoid trouble by communicating better? Would these ideas be helpful to a small business owner too?

4. Discuss the following quotes. Whom do you agree with--Marge or Steve?

   Marge: "I think managing people is by far the hardest part of owning a business. If a worker fights with his girlfriend or resents his co-worker, the whole business suffers, and these problems can't be solved overnight."

   Steve: "My people are easy to work with. I can't stand the paperwork. I always have trouble adding up the sales I make each day. And keeping records for income and payroll taxes is horrendous!"

   What part of running a business do <u>you</u> think would be hardest?

Group Activity

Role play a meeting of Ed Olsen with several people applying for the "mechanic's assistant" job. Decide ahead of time what each applicant will be like. Applicants should have different abilities and experience and be unequally qualified for the job. After interviewing each person, Ed should be able to come to a fairly clear decision about which applicant is best for the job.

UNIT 7

Organizing the Work

Goal: To help you organize the daily work of your business.

Objective 1: List three main steps in doing the work of a small business.

Objective 2: Describe the purpose of the work order and the work schedule.

MARY ORGANIZES HER WORK CREW

Mary and Harry Crow started the Golden Dawn Landscaping Service five years ago in North Carolina. Mary, age 49, has been running the business alone since her husband died two years ago. Mary, an experienced landscaper herself, orders plants and other supplies, keeps the records, and organizes the work.

Mary has four full-time landscapers. Bob, the foreman, usually draws up the plans for jobs and gives estimates of how much they will cost. He goes to the jobs with the other workers and gets them started. He returns on the last day to make sure the work is finished and that the customer is happy. Tony's specialty is patio construction; Sam and Pierre often do lawn and garden replanting. All four men fill in on any area of landscaping when Mary needs them.

On Friday, September 12, the four men were working on a large job with Oakwood Chemical Company (job #101). They were planting trees and bushes and redoing the lawn.

At 10 a.m. that day, Mary received a call from Mrs. Kelly, who had decided on a job she had talked to Bob about last week (job #102). She wanted Mary's crew to build a patio in her backyard, plant some bushes around the house, and replant her front lawn. Mary filled out a work order on the job. She decided to pull Tony off the Oakwood job and have him start the patio on the 16th. He would finish building it on the 18th. Pierre and Sam would be finished with the Oakwood job on that day. They could then come and do the planting and lawn work for the Kellys on Friday, the 19th, and Monday and Tuesday, the 22nd and 23rd. Bob would get things started on the 16th and would check the work on the 23rd.

At 3:15, Clyde Watkins called, asking Mary whether they could landscape his yard. Mary said she would send Bob over on the afternoon of the 16th to write up an estimate. Work could start on September 24.

Organizing the Work

Steps in Doing the Work of a Business

Making sure the work of the business is done well and on time is an important part of the small business owner's job. These are the three main steps in doing the work of a business.

- Organizing the work. Like Mary, all small business owners must figure out what work has to be done in their business, when it must be finished, and who will do it.
- Doing the work. Small business owners must make sure someone does the work. Sometimes they will do the work themselves. Often they will have their employees do it (especially as their business grows). In many cases, small business owners are more "managers" than "doers."
- Checking the work. After the work is completed for the customer, it must be checked to see whether it was done well. Often the small business owner checks the work. In Mary's case, her foreman, Bob, checked what the others had done and made sure that the customer was happy.

Ways of organizing the work depend on the kind of business. For a retail business (such as a shoe store), the work is organized around the products that are sold. For example, you must organize how and when the shoes will be put on the shelves, sold, and by whom.

For a service business, the work is organized around the service that the customer needs (such as the building of a new patio by Mary's landscaping service). This unit describes the forms Mary used in her service business. Other businesses may use forms that are different from these.

The Work Order

The work order is used mainly in service businesses to record the customer's order and to request that the workers do the work. The work order is filled out by the owner or another employee after finding out what service the customer needs. The work order is then passed on to the workers, who do the work as described on the form. A copy of Mary's work order for the Kelly job appears below.

WORK ORDER

FROM: Golden Dawn Landscaping Serv.
12380 Magnolia Ave.
Greenville, North Carolina
WORK FOR: Mrs. Robert Kelly
700 Seven Hills Dr.
Greenville, NC
965-8173

DATE: September 12
WORK ORDER NUMBER: 102
ORDER TAKEN BY: Mary Crow
START WORK ON: September 16
FINISH WORK ON: September 23

Person Doing Work	Estimated Time Needed	Description of Work
Tony	3 days	Building the patio (gravel and concrete, redwood siding, latticework)
Sam & Pierre	1 day	Planting around the house (azaleas, star jasmine, camellias)
Sam & Pierre	2 days	Redoing the front lawn (ripping out old lawn, leveling, putting in new sod) (For detailed plans, see Contract #102)

WORK STARTED ON: September 16
WORK FINISHED ON: September 23
WORK INSPECTED BY: Bob Schulz
Customer's Signature *Kathleen A. Kelly*

TOTAL MATERIALS	786 00
TOTAL LABOR	900 00
TAX (5% on materials only)	39 30
TOTAL COST	$1,725 30

On the work order, Mary wrote the date she took the order, her name (order taken by), and the dates Mrs. Kelly wanted the work started and finished (start work on and finish work on).

Mary wrote down Mrs. Kelly's name, address, and phone number in the blank called work for. Under description of work, she listed the three main tasks in the job--building the patio, planting around the house, and

redoing the front lawn. She decided who would do each task (person doing the work) and the time it would take (estimated time needed). Then she passed the work order to Bob.

Bob filled in the blanks at the bottom left of the form (when the work was actually started and finished). He also signed his name after inspecting the work (work inspected by). Mrs. Kelly signed to give her okay of the work. Then Mary figured out the final cost of materials and labor, sales tax, and total cost of the job. She sent a copy of the work order to Mrs. Kelly with the bill.

The Work Schedule

Mary had to organize the work on all the landscaping jobs that came in--Mrs. Kelly's job, Mr. Watkins' job, and the one for Oakwood Chemical. She also had to decide which job would be started first and how to divide her workers' time among jobs. For this, she needed a work schedule. The work schedule is a daily calendar that describes which jobs will be done by which employees, in which order.

On Mary's work schedule for September 16 (below), she listed the name of each employee, the description of the work he would be doing that day, and the estimated dates he would be working on that job. If one employee had more than one job to do in a day, she listed the jobs in the order they should be done.

WORK SCHEDULE

Date: Tuesday, September 16

Employee	Description of Job	Estimated Dates
Bob	① Start building Kelly's patio (#102) ② Prepare estimate for Watkins' job	September 16
Tony	Build Kelly's patio, Job #102	September 16-18
Pierre	Continue redoing Oakwood lawn, Job #101	September 12-18
Sam	Continue redoing Oakwood lawn, Job #101	September 12-18

"I try to fill out my work schedules a week in advance," said Mary. "They let my workers know what they will be doing next. They also help me to put my people in jobs they are good at and to get the work done on time for my customers. This way, too, I always know where to find my employees if I need them."

Summary

As a small business owner, you must organize the daily work of your business. You must take customer orders, describe the work that must be done, and pick the workers who will do it. For this, you may use a work order. You may use a work schedule to organize workers' time on several customer jobs going on at once.

Learning Activities

Individual Activities

1. Below are five statements describing how small business owners organize their work. Circle "T" if the statement is true and "F" if the statement is false.

a. T F Most small business owners organize and do the work of their business and have another employee check it.

b. T F Owners of retail businesses use the work order more than owners of service businesses.

c. T F Work orders are often filled out after a phone call from a customer.

d. T F Work schedules are used mainly to describe the work that has been completed in a certain week.

e. T F A small business owner would use a work schedule to put several employees to work on several different customer jobs on the same day.

2. Read the following description of Clyde Watkins' landscaping order and fill out a work order for this job (job #103).

> Tony and Pierre will spend two days removing a dead oak tree from Clyde Watkins' backyard. For the next two days, they will tear out the old bushes and build raised garden beds. Then Pierre will plant juniper and other bushes in the raised beds (in one day).
>
> Bob will get the others started on Wednesday morning, September 24, and will check their work late on Tuesday, September 30. On Wednesday afternoon he will start preparing an estimate for a large landscaping job at Greenbriar Hospital (job #104). It will take him 2½ days. (Sam will be on vacation until October 1.) Materials for the Watkins job will cost $600 and labor $580. Sales tax is 5% (on materials only).

WORK ORDER

FROM: Golden Dawn Landscaping Serv.
12380 Magnolia Avenue
Greenville, North Carolina

WORK FOR: _____

DATE: _____

WORK ORDER NUMBER: 103

ORDER TAKEN BY: _____

START WORK ON: _____

FINISH WORK ON: _____

Person Doing Work	Estimated Time Needed	Description of Work

WORK STARTED ON: _____
WORK FINISHED ON: _____
WORK INSPECTED BY: _____

Customer's Signature _____

TOTAL MATERIALS	
TOTAL LABOR	
TAX (5%)	
TOTAL COST	

3. Based on the information in #2, also complete a work schedule for Bob, Tony, Sam, and Pierre for Wednesday, September 24.

WORK SCHEDULE

Date: _____

Employee	Description of Job	Estimated Dates
Bob		
Tony		
Pierre		
Sam		

Discussion Questions

1. How could a work schedule be used by the owner of a small shoe store? Why would work order forms probably not be used?

2. Do you think work orders filled out by the owner of a typing service would be as detailed as work orders for a landscaping service? Why, or why not? Give examples of what might be listed under description of work and estimated time needed for a typing service.

3. Do you think it would be helpful for Mary Crow to make up a daily work schedule for herself? Why, or why not? What things could she include that she does every day? What things come up suddenly in her day that she would have to leave room for?

4. Discuss the following quote from Charles Washington.

> "I started my own restaurant because I love to cook and I didn't like having a boss. As my business grew, I hired a part-time cook, two waitresses, and a busboy/dishwasher. I find that all I'm doing these days is training employees and writing up work schedules. I hardly ever get to work in the kitchen. All this managing is a drag."

Do you think Charles had a good idea of what being a small business owner was before he started? If Charles really wants to cook all day, what should he do?

Group Activity

Suppose you and two friends are running a snack bar at the local swimming pool for the summer. The main tasks consist of (1) cooking and preparing food and (2) taking customer orders and working the cash register (selling). Other tasks include ordering food and supplies once a week and counting money and cleaning up every evening. The snack bar will be open from 10 a.m. to 6 p.m., seven days a week. Each worker will work six hours a day, five days a week. At least two people should be on

duty from 12-2, the busiest part of the day, and on Saturdays and Sundays, the busiest days of the week.

Make up a work schedule using the columns listed below. List the names of all three employees under each day of the week. Then list the jobs each person will be doing and the hours he or she will be working. If someone is not working on a certain day, write "Day off" by his or her name.

Days of the Week	Employee	Task(s)	Hours

UNIT 8

Buying and Keeping Track of Supplies

Goal: To help you buy and keep track of goods in your business.

Objective 1: List four decisions you must make when buying goods for your business.

Objective 2: List several things you should think about when choosing suppliers.

Objective 3: State the purpose of the purchase order and the inventory card.

MIKE TRIES TO CONTROL HIS INVENTORY

Mike Thayer took over the Thayer and Son Hardware Store from his father five years ago. Recently, Mike decided to start selling some new products--garden tools, potting soil, plant food and fertilizer, seeds, and small plants.

Mike thought about buying from one of two suppliers--Sunshine Seeds and Hothouse Suppliers. Sunshine Seeds was a nationally known company that sold seeds, live plants, and gardening supplies. Their seeds were the best in the country, and their delivery service was fast. However, their products were rather expensive. Mike heard that the local saleswoman was capable but a little sharp with customers. Hothouse Suppliers provided all the same products as Sunshine but at cheaper prices. The salesman was very nice, but Mike heard that sometimes plants were slightly wilted when they arrived.

Mike decided to use both suppliers. He would order his seeds and live plants from Sunshine and the other gardening supplies from Hothouse. He placed his orders before Christmas so he could be sure to receive everything in time for spring gardening season. He decided to order small amounts at first since he wasn't sure how his new products would sell.

On October 23, Mike placed an order with Hothouse Suppliers for 50 five-pound bags of potting soil at $2.70 each; 75 clay flower pots at 66¢ each; and 200 bottles of indoor/outdoor plant food costing $1.50 a bottle. He also ordered 25 rakes, 10 hoes, 20 shovels, and 100 trowels. The rakes cost $5 each, the hoes $7.50 each, and the shovels $8. For the trowels he paid $1 apiece. Mike also mailed an order to Sunshine Seeds for 200 assorted packets of vegetable seeds (at 15¢ each), 30 flats of vegetable plants (at $5 each), and 30 flats of flowers (at $6 each). Mike paid 6% sales tax on both orders. He asked that both suppliers deliver the goods via truck by March 10. Both orders arrived on March 2.

The plant food was very popular. Mike sold 25 bottles on both the first and second days (March 3 and 4). He planned to reorder 200 bottles when he had 50 bottles left in stock. Mike also sold seven flower pots on the first day and 12 more pots on March 7. He planned to reorder 75 more when his supply got down to 30.

Buying and Keeping Track of Supplies

All small business owners use some kind of goods in their businesses. In retail businesses, everything centers around selling goods to the public (such as food or clothing). Goods that are stored in the business waiting to be sold are called inventory. In some service businesses, such as a bookkeeping service, services are sold, not products, so very few goods are needed--for example, only the paper products and other supplies needed to run the office. Other service businesses use large amounts of goods--such as auto parts in a car repair business or lumber in a carpentry business--in order to provide their services and to satisfy a wide variety of customer needs.

Businesses selling goods to other businesses are called suppliers. There are several kinds of suppliers. For a retail business, you may buy your goods from a manufacturer (the person who makes the product) or from a wholesaler (a "middleman" who buys from manufacturers and sells to retailers). If you have a service business, you may buy your supplies from a wholesaler or a retailer. (Wholesalers usually sell goods cheaper than retailers but sell only in large amounts.)

Decisions to Make in Buying Goods for Your Business

When planning to buy goods for your business, you must decide two things.

- What to buy. To decide what goods you need in a retail business, you should study the customers you want to reach. Decide what they want and need. For a service business, decide what supplies will help you perform your service best. Order the products that are most similar to what you and your customers need.

- Where to buy. Like Mike, you must decide which supplier is best for you. There are three things to look at when choosing suppliers.
  1. Their goods. Mike looked for the supplier that offered the goods that best fit his customers' tastes and budgets. For plants and seeds, Mike wanted the highest quality there was, so he chose Sunshine Seeds--even though their prices were higher. Mike also made sure that Sunshine offered the variety and amount he needed.
  2. Their prices. Mike felt that, for all garden supplies except seeds and plants, he should buy his goods from the supplier with lower prices.
  3. Their services. Mike wanted his suppliers to be polite and to fill his orders quickly and correctly. He wanted good delivery service and good business advice. He also was interested in knowing if he could buy on credit. He wanted his complaints and problems to be handled fairly. Both of Mike's suppliers had strengths and weaknesses in their services.

  Most small business owners buy from a few different suppliers. Mike chose two. He thought he could get to know the two salespeople, and then he could get better service and prices and more credit. By using two suppliers, he would also have a supplier to fall back on if one had business problems.

When buying goods, you also have to decide these two things.

- How much to buy. In deciding on amounts to buy, you must do a "balancing act." You should buy as little as possible (to save money) and you should buy enough for your needs (to make money). If you buy a lot of yo-yos, for example, and no one wants them, you are in trouble. You are not making money on the yo-yos, and you have less money to invest in something else that might sell better (for example, roller skates). If you run out of yo-yos, however, your customers who want to buy them will shop elsewhere. Having either too much or too little of a product is undesirable!
- When to buy. The right time for buying supplies is several weeks or months before you need them--especially if you have to allow

time for long-distance delivery. Some goods should be ordered regularly throughout the year--such as things you need in your business every day. Other goods should be ordered only at certain times of the year. For example, Mike ordered garden supplies for the spring gardening season. Having a good system for timing orders is very important.

The Purchase Order

The purchase order is used to order goods from suppliers. Mike's order to Sunshine Seeds appears below.

PURCHASE ORDER

TO: Sunshine Seeds
Oaktree Lane
Kalamazoo, Michigan

SHIP TO: Thayer & Son Hardware
201 Westlake Ave.
Angus, Ohio

DATE: October 23
PURCHASE ORDER NUMBER: 01354
REQUIRED DELIVERY DATE: March 10
SHIP VIA: Truck

Quantity	Unit	Description	Unit Cost	Total Cost
200	packets	Assorted vegetable seeds	$ 0 15	$ 30 00
30	flats	Assorted vegetable plants	5 00	150 00
30	flats	Assorted flowers	6 00	180 00
		TOTAL		$360 00

Signature Mike Thayer

Mike wrote the following information on his purchase order.

- Name and address of the supplier
- Name and address of his company ("ship to")
- Purchase order number and date filled out
- Date he needed the goods ("required delivery date")
- How he wanted the goods delivered ("ship via")
- Quantity, units, and description of goods

- Cost of each unit of goods (for example, one packet of seeds = 15¢) and total cost of each kind of goods (for example, 200 packets of seeds = 200 x 15¢ = $30).
- Total cost of all goods to be bought

The Inventory Card

Mike also wanted a way of finding out how many garden supplies he had in his store on a certain day. Then he would know when he needed to buy more. The inventory card he used to keep track of his goods (in this case, plant food) appears below.

INVENTORY CARD

Item Plant Food

Supplier Hothouse Suppliers

Reorder Point 50 Reorder Amount 200

AMOUNT RECEIVED		AMOUNT SOLD		AMOUNT REMAINING	
Date	Amount	Date	Amount	Date	Amount
3/1	200	3/3	25	3/3	175
		3/4	25	3/4	150

Every time Mike received plant food from Hothouse, he filled in the left side of the card (amount received and date). Every day he sold plant food he filled in the part of the card marked amount sold. He then figured out the amount he had left in his shop (amount remaining) by subtracting the amount sold from amount received. When he had only 50 bottles of plant food left (his reorder point), he would reorder 200 more bottles (reorder amount).

You can also keep track of the inventory you have in your store, office, or storeroom by saving sales slips or cash register tapes that describe each item that has been sold. Even if you use one of these

"paper and pencil" systems, you should probably count all the goods you have in your business once or twice a year.

Summary

All small business owners need goods for their businesses--either to resell to the customer or to use in performing their services. When ordering goods, you must answer the following questions: what, where, when, and how much should I buy? You should pick suppliers by finding out how their goods, prices, and services meet your needs and the needs of your customers. You can use purchase orders to buy goods from suppliers. You can also use inventory cards to keep track of the goods you have in your business.

Learning Activities

Individual Activities

1. Complete a purchase order form for Mike to send to Hothouse Suppliers.

PURCHASE ORDER

TO:_____ DATE:_____

_____ PURCHASE ORDER NUMBER: _____

_____ REQUIRED DELIVERY DATE: _____

SHIP TO:_____ SHIP VIA:_____

_____

_____

Quantity	Unit	Description	Unit Cost	Total Cost
			Subtotal	
			Tax (6%)	
Signature:_____			TOTAL	

2. Complete an inventory card for the flower pots Mike received and sold from March 2 to March 7.

INVENTORY CARD

Item_____

Supplier_____

Reorder Point_____ Reorder Amount_____

AMOUNT RECEIVED		AMOUNT SOLD		AMOUNT REMAINING	
Date	Amount	Date	Amount	Date	Amount

Discussion Questions

1. Do you agree with Mike's decision about which suppliers to use? Why, or why not?

2. Suppose Mike's plant food was so popular that every week he sold 50 of his 200 bottles. In how many weeks would he need to order more? Do you think he should change his system of ordering plant food? How?

3. Do you think Mike should order all his carpentry supplies (such as nails and hammers) in October too? Why, or why not?

4. Where do you think the owner of a small drug store would buy cosmetics--from wholesalers or retailers? What are the advantages of buying cosmetics in this way instead of from the manufacturers?

5. If you owned a small bookkeeping service, what kinds of supplies would you have to buy for your business? How would you find suppliers? How would you pick the best one?

Group Activity

Pick a retail business you would like to own. Then decide on one product you would like to sell in your business. Decide what you would like your product to be like (high-quality or discount, etc.). Make a list of three suppliers in your area that offer this product. (Look in the Yellow Pages, talk to business owners, etc.) Then pick the one that is best for you. Explain why you chose the one you did.

UNIT 9

Setting Prices

Goal: To help you decide how to set prices for your products or services.

Objective 1: List five things to think about in setting prices.

Objective 2: In one sentence, state a basic guideline for setting prices.

GUS DECIDES HOW MUCH TO CHARGE

Gus Pappas just bought a mobile catering business from another owner. He'd make his sandwiches fresh every morning and then sell them from the truck during the day. He'd drive to the same places the former owner did.

Gus wanted to set a good price for his ham and cheese sandwich. The cost he had to pay to make and sell the sandwich included the cost of the bread, ham, cheese, tomato, lettuce, and mayonnaise (37½¢). It also included the other supplies he gave the customers with the sandwich--such as plastic wrap, napkins, plastic utensils, salt, and pepper (15½¢).

Gus knew that the price of each sandwich should also cover part of the other expenses of his business. These included the salary of his part-time sandwich maker, expenses for his truck, and advertising. "My accountant tells me that I should add about 26¢ to the price of every sandwich to cover my expenses."

Of course, Gus wanted to make some money for himself. He had read that owners of mobile catering businesses like his make about 25% on each sale. "I think it would be fair to expect about 20% profit to start."

Gus's customers would mainly be factory workers. Some of them brought their lunches from home. Others walked a few blocks to the deli, where they could buy ham and cheese sandwiches for $1.20. A few went to the luncheonette on the corner for a sit-down lunch. The same sandwich there cost $1.50. Many people bought from the truck, since they didn't have much time or money to spend on lunch.

"I should make my prices cheaper than the ones at the deli and the luncheonette. Somewhere between 90¢ and $1.10 seems right." Gus figured that the lower he priced them, the more he would sell. For instance, he thought that in one day he could sell 80 sandwiches at 90¢, 75 sandwiches at $1, or 65 sandwiches at $1.10.

Gus decided to set the price of his sandwiches at $1. The first day he sold just what he had expected--75 sandwiches. He felt he had made a good decision.

Setting Prices

What Is the Selling Price?

The selling price is the amount of money the customer pays to buy a product or service. It is made up of three parts:

- cost of goods sold;
- operating expenses; and
- profit.

Cost of goods sold is the amount business owners have to pay for the goods they resell to the customer. These costs refer to the cost of products that are resold "as is," such as clothes, and the cost of materials that are used in preparing products or in performing services (such as repairing a car). In some service businesses, such as a delivery service, there is no cost of goods sold since no goods are sold at all.

The cost of goods sold depends on the prices charged by suppliers. Gus tried to get the "best deal" he could on the food and supplies he used in his business to keep the cost of goods sold as low as possible.

Operating expenses include all the other costs of running the business. These include salaries, rent and utilities, repairs and depreciation on equipment, insurance, advertising, and general supplies. Depreciation is the amount that equipment reduces in value each year due to "wear and tear." If you have a truck in your business and it is losing value at the rate of 10% a year, this amount is called depreciation. You can deduct this as a regular operating expense. Gus also had to include the cost of unsold sandwiches in calculating his operating expenses. He tried to keep his operating expenses down so he could keep his prices low, too.

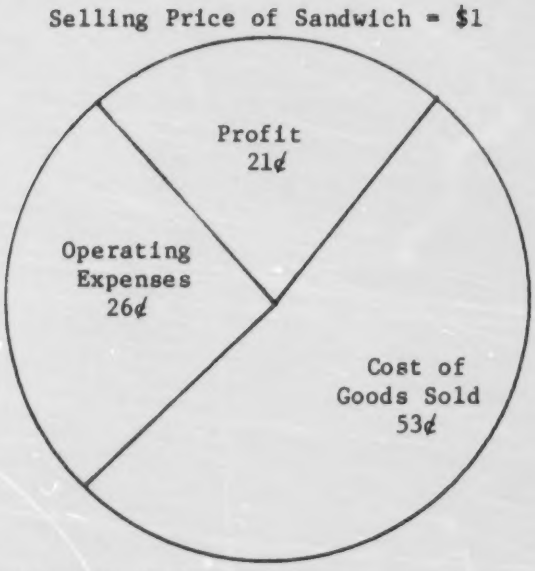
Operating expenses are a smaller part of the selling price in Gus's business than in certain other businesses. For an auto tuneup, for example, operating expenses make up a large part of the price because a large amount of labor is required in doing the job. In other businesses, such as the delivery service, operating expenses make up most of the price. There are no goods sold at all so the delivery service owner does not have to worry about the cost of goods sold. He or she chooses the price based only on operating expenses and profit.

From financial information about Gus's business, the accountant calculated how much Gus should include in his selling price to cover these expenses. He checked the figure with the average profit/loss statements for other mobile caterers of the same size, which he obtained from the catering industry association.

Profit is the owner's reward for all his or her hard work and for the financial investment made in the business. In setting the price, Gus added a certain amount to his costs and expenses to allow for profit. Gus will use some of the profit as his own salary. Part of the cash from the profit will be used to pay his income taxes. The rest he will put back into the business (for example, to buy a new freezer for his truck).

Gus decided on the amount of profit to add to his price. He looked up in a business directory what the profits of other mobile caterers were like. Then he decided how much profit he wanted to earn. Since he had just taken over the business, he thought he should expect a lower percentage of profit than the average.

The three parts of Gus's sandwich price are pictured on the next page.



Other Things Influencing the Selling Price

Two other things Gus thought about in picking the exact price of his sandwich were:

- customer demand; and
- competition.

Gus needed to know about customer demand--how willing and able his customers were to buy. Gus needed to figure out how many customers would buy his sandwiches at various prices. He knew that if his price was too low, he would sell a lot of sandwiches but the total money taken in would be low. If his price was too high, he would make more on each sandwich but he would sell fewer. The total revenues would be low then, too. Gus needed to pick the price at which he could sell a fairly large number of sandwiches and take in the most money. He decided that $1 was the best price.

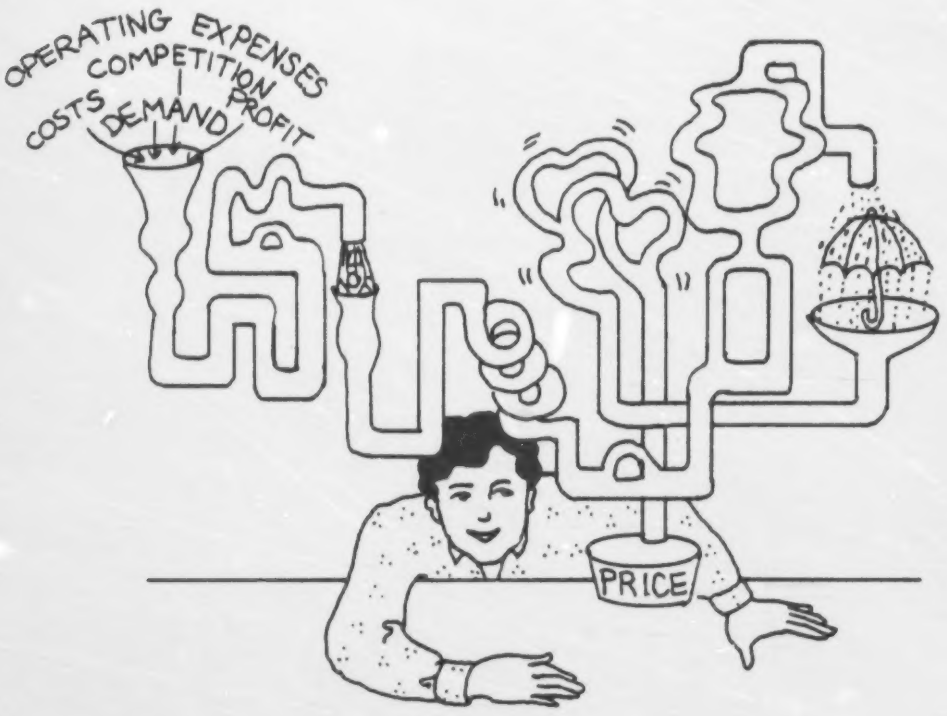
Gus also knew that customer demand can change. "If inflation continues and people have less money to spend, more workers will bring lunches from home. To compete, I might have to lower my prices. If wages go up and people have more money, then I might be able to raise my prices." If Gus added something new to his business, like special sandwiches or Greek music in his truck, he might be able to increase customer traffic. Then he could raise prices.

The prices of Gus's competition also influenced his prices. He knew he had to check their prices often to make sure his were "in line." "My prices have to fit in wit the others. They should be lower than other sandwich places around the factories. That's because my service is less fancy than the luncheonette, and I don't make my sandwiches to order the way the deli does."

If there had been other lunch wagons like his in the area, Gus would have had to charge prices similar to theirs. If possible, his prices should be the same or lower than those of the other lunch wagons. If his were higher, he would have to show his customers that his products or services were worth the higher price.

Other Tips on Setting Prices

To set a price, you take a lot of numbers and facts about the business into account, all at the same time. It is not always easy. Of course, you get better at it as time goes on.



A good rule of thumb for setting prices is that your price should be high enough to give a profit and low enough that people will buy. Sometimes you may set a price that is too high or too low. Then you must make changes before your business suffers.

Summary

The three main things that make up the selling price of a product or service are the cost of goods sold, operating expenses, and profit. Two other things to consider in setting prices are how much customers will pay and how much the competition is charging.

Learning Activities

Individual Activities

1. Match the words with the phrases defining them:

   _____ operating expenses
   _____ selling price
   _____ profit
   _____ cost of goods sold

   a. The amount charged to the customer
   b. The amount paid for a product by a retailer
   c. The amount spent to pay employees and run the business
   d. The amount going to the owner for salary and income taxes

2. Gus charges $1.50 for his super-duper hamburger. If he makes 36¢ profit and spends 39¢ for operating expenses, how much does he spend on food and supplies for each hamburger?

3. In several years Gus's business grew larger. He bought a second truck and hired more employees. On the price of a particular sandwich, 56% went to cover the cost of goods sold and 36% went to cover operating expenses. What percent of profit did he make on this sandwich? How is this different from the example in the text? Why?

4. Draw a "pie" chart describing the price of a certain delivery service. The service sets its price by charging 75% for operating expenses and 25% for profit. Explain why there are only two pieces to the pie instead of three as in Gus's business.

Discussion Questions

1. Suppose it costs the factory workers 65¢ to make a ham and cheese sandwich at home. Can Gus compete with that price? Why, or why not?

2. How do you think Gus's business image was different from that of the luncheonette? How were his products and services different? How did these things influence the price he could charge?

3. When can a business charge a high price for a product or service even if its cost of goods sold and operating expenses are low? Give several examples.

Group Activity

Suppose you are making a simple, handmade product (such as a craft item or baked goods) to sell to your family and friends. Decide how much it will cost you to make it and how much you will have to add to the price to pay for operating expenses (phone calls, postage, advertising, etc.). Find out if other people are selling a similar product and how much they are charging. Also ask a few possible customers how much they would be willing to pay. Draw a "pie" chart for your product and explain how you chose your price.

UNIT 10

Advertising and Selling

Goals: To help you advertise and sell your products or services.

Objective 1: List six things to think about when planning your advertising.

Objective 2: Give several reasons why people buy.

Objective 3: List the five steps of good selling.

"FUN IN THE SUN" ADVERTISES

Ginny and Dave Scott were getting ready to open a women's sportswear shop in Florida. They would sell women's pants, skirts, tops, swimsuits, and tennis clothes. They'd also sell jewelry, sandals, hats, bags, and sunglasses. Dave and Ginny collected live tropical birds. They planned to put some of the birds in the store to add to the "tropical theme."

Dave and Ginny figured on sales of about $60,000 the first year and about $3,500 in advertising expenses. "As our business catches on," said Ginny, "we can spend a smaller percent, but advertising in the first year is crucial! We're going to have an all-out campaign in September, the first month we open. We'll spend about $700 then and about $200 in all the other months, except for the month of August. Then we'll spend about twice our monthly amount to advertise our end-of-summer sale."

Dave decided to advertise in the local newspaper, mail out fliers, and list their shop in bold print in the Yellow Pages. Ginny designed a logo for their store that they would use in all their ads. She also drew a picture of a young woman in mod sportswear standing by a palm tree. This described the type of customer they wanted to reach and the type of store they had. They would put this picture in their "grand opening" ad.

Dave and Ginny had arranged four months earlier for their store to be listed in the next issue of the Yellow Pages under Sportswear. They also made plans to put several ads in the paper the first two weeks their shop was open. After that, a small ad for Fun in the Sun would appear every Wednesday.

During the first week of business, Dave and Ginny would send out 1500 fliers in the mail to the apartments and homes near their shop. In the flier they would include a coupon offering a 10% discount to customers coming in during the first 30 days. "We're also hoping to give a free fashion show for the young businesswomen's group next spring to attract customers."

Advertising and Selling

Once you've set up your business and hired your workers, you need to sell your product or service. Just offering the best service or the cheapest goods is not enough. Advertising and selling are also needed. Advertising is telling people about your business' products or services. Selling is getting people to buy them.

Things to Think about in Planning Your Advertising

In deciding what your advertising will be like, you need to think about these things.

1. Who your customers are and where they live. Ginny and Dave wanted young career women living within a few miles of their store to become their customers. They decided to aim all their advertising at this group.
2. How much you will spend. Different kinds of businesses spend different amounts on advertising. Women's clothing stores usually spend about 3% of their revenues on advertising each year. More should be spent when you're getting started. Once you decide the total yearly amount, you should divide this up among the 12 months of business. Ginny and Dave decided to spend 20% of all their advertising money for the opening month. They would spend a lot to advertise their August sale, too. For the other months they would spend a lower amount (around $200). For example, for the months they knew were good shopping times, such as December, they might spend $250. For February, a month when people don't usually shop as much, they might spend less than $200.
3. How you will advertise. The different means you can use to advertise are called media. These are examples of different advertising media.

- Ads in the local newspaper reach large numbers of people in your business area at a fairly low cost. The newspaper is the medium used most by owners of retail stores. Ginny and Dave planned to use the paper every month as their main form of advertising.
- Direct mail advertising consists of letters, post cards, or fliers that are mailed to a special group of customers. Although they are fairly expensive, direct mail ads give a personal message. People tend to keep these ads a long while and use them when making shopping plans, especially if a coupon is attached.
- In Yellow Pages advertising, you can simply have your name, address, and phone number listed under a certain heading in the back of the phone book. Or you can pay more for a larger ad and include a picture if you want. Using the Yellow Pages is fairly inexpensive. People often look in the Yellow Pages when they want services. Dave and Ginny didn't think they would reach many clothes shoppers this way, though. They decided to spend only a little on this type of advertising.
- Transit and outdoor advertising includes cards and posters in buses and trains, and roadside billboards. This type of advertising reaches a large number of people but is fairly expensive.
- Radio and television ads reach thousands of people. Television is quite expensive, but radio commercials cost about as much as newspaper ads. Local stations may reach the customers right in your area. These ads must be used often to get results.

These are other things to think about in planning your advertising.

4. When and how often you want to advertise. You should do regular advertising all year round. Special advertising can be done for certain holidays and sales. Remember to advertise a few days or weeks before you want people to buy. For example, Dave and Ginny advertise on Wednesday so their customers will shop at their store on Thursday nights and weekends. They do their Christmas advertising starting in November. To bring in customers, you should advertise often. Keep reminding your customers that you're

around and that you want their business. Dave and Ginny felt that they needed to advertise in the paper at least once a week.

5. Why you are advertising. There are two main reasons to advertise: to let people know about your business so they will buy later on; and to get people to buy from you now. You may advertise to announce your grand opening, to sell a new product or service, or to tell about a special sale. In the first year, Ginny and Dave planned to use ads for all these purposes.
6. What you want to say. You should decide what your customers need to know and say it clearly. Ginny and Dave's ads described Fun in the Sun's customers, products and services, location, and hours. Each ad focused on one particular thing--for example, their grand opening.

What a Good Ad Is Like

Whether you are writing an ad for the newspaper, radio, or another medium, you should remember that a good ad:

- attracts attention;
- is easy to recognize;
- is simple;
- gives important information about your business; and
- makes people want to buy.

You should try to use a catchy phrase, picture, or song if you can. Keep certain parts of all your ads the same. For example, design a logo and use it in all your ads. A logo is a design or symbol that is special to your business. Dave and Ginny's was a sun circled by their business name. With a logo, customers will think of your business as soon as they see your ad.

Ginny and Dave's ad for their grand opening appears on the next page.

Ginny and Dave's ad for their grand opening appears below.

All printed ads have the following parts:

- headline--at the top in large letters to attract attention;
- illustration--a picture describing your products or services;
- copy--the written part of the ad that gives information about the business and makes customers want to buy;
- identification--the name, address, phone number, and logo of the business; and
- layout--the way all the parts of the ad are arranged on the page.

Why People Buy

Understanding why people buy helps you advertise and sell successfully. Often people buy because they have a basic need. They also buy because they have certain wants, such as: comfort, convenience, prestige, economy, and security.

Dave and Ginny kept their customers' needs and wants in mind when they planned their ads and when they sold to customers in the store. For example, they knew that their customers wanted high-fashion clothes that their friends would notice (prestige). They also wanted sportswear that was comfortable. The alterations offered by the shop helped meet their customers' need for convenience. Low prices (economy) were probably not as important to Dave and Ginny's customers as other things. Having a lighted parking garage with a night patrol would be an example of meeting the customers' need for security.

How to Make a Sale

Dave and Ginny knew that selling is as important as advertising. "Once we've got people to come into the store, we've got to convince them to buy. And if we're cross with customers or give poor fashion advice, we're sunk!"

Being a good salesperson means, first of all, getting along with people. You and your employees should always try to be interested in customers and to be kind and courteous. You should also help out on community projects and get to know people in your business neighborhood. This will help give your business a good name.

To make sales, always follow the "steps of good selling": greet the customer; find out what your customer wants; present the product; answer questions and handle objections; and close the sale.

Summary

Good advertising makes people interested in your business. In planning your advertising, ask: Whom do I want to reach with my ads? How much can I spend? How, when, and how often will I advertise? Why? What will I say in my ads? Good selling actually gets people to buy. To be a good sales person, you should get along well with people, understand why they buy, and follow the five steps of good selling.

Learning Activities

Individual Activities

1. Match the advertising medium on the right with the phrase best describing it.

_____ Expensive but personal	a. Newspaper
_____ Most popular with retail businesses	b. Yellow Pages
_____ Good for reaching people who already want to buy	c. Direct mail
_____ Far-reaching but must be used often for good results	d. Radio

2. Call the Yellow Pages advertising department of your local telephone company. Find out the various sizes and types of business ads there are and the price of each.

3. Cut out three ads for the same type of business from your local paper (for example, three restaurants). Mark the five parts of each ad (headline, copy, etc.). Then write a short paragraph telling which ad you like best, and why.

Discussion Questions

1. List all the things that advertising can do for your small business. List some things that advertising can't do. (For example, it can't bring in customers if your product is out of date.)

2. Dave and Ginny relied mainly on newspaper, direct mail, and Yellow Pages advertising for their business. What other things did they do to "promote" their business (get people to be interested in becoming their customers)? What else could they do?

3. Do you think advertising for a data processing service would be different than for a clothing store? Which of the media mentioned in the text could this business use? What other ways could the owner get customers? What about advertising for a carpentry business?

Group Activity

Write out an advertising plan for Ginny and Dave's business for September (the opening month), March (a slow month), and August (a sale month). Tell what media you will use for each month, the monthly cost of each type of ad, and the total amount spent each month. Base your plan on the costs given below and the ideas Dave and Ginny had for their business.

Advertising Medium	Cost of Each Ad
Newspaper:	
large ad	$100 per day
small ad	$ 25 per day
Direct mail fliers:	$.20 per flier (including printing, postage, and labor)
Yellow Pages:	
name in bold print only	$ 10 per month
small ad	$ 30 per month
large ad	$100 per month

Then develop an ad for Dave and Ginny to use for March or August. Make it clear and catchy! (Artwork doesn't have to be fancy.)

UNIT 11

Keeping Financial Records (Revenues)

Goal: To help you keep track of money coming into your business.

Objective 1: List four reasons a small business owner should keep financial records.

Objective 2: State the purpose of the sales slip.

Objective 3: State the purpose of the customer account form and the customer billing form.

MERLE KEEPS TRACK OF REVENUES

Before Merle Hamilton opened her new tire shop, Quality Tires, she made plans about how she would keep financial records. Merle's sister Susan was a bookkeeper and helped her set up the record system. "I know there will be cash coming in every day from people buying tires. Some money will come in to cover earlier credit sales on tires, too. I'll have to keep records of how much I receive every day and who owes money to the business."

Merle decided to allow customers to buy tires for cash or on credit. If her credit customers paid their bills in 60 days, they would not have to pay interest.

Merle opened her shop on May 1. By the end of the day, she had sold three sets of tires. Mike Nelson bought two tires for his sports car for $35 each and paid cash. Jackie Groggin bought two tires for her delivery truck on credit at $50 each. Merle also sold four Goodstone steel belted radials to Morton Smith for his station wagon at $60 each. He wanted to use the 60-day credit plan. Merle recorded each sale on a sales slip. For Jackie and Morton, she also recorded the sale on separate customer account forms.

On May 15, Jackie Groggin bought two more tires at $50 each and left a check for $50 to pay part of her bill. On May 26, Merle sent out bills to Jackie and Morton. On May 30, she received payment from Morton for $150.

Merle felt that she was beginning to learn how to keep financial records. "So far, so good!" she said.

Keeping Financial Records

Keeping records is "behind-the-scenes" work that is as important to your business as selling your product or service. Every small business owner keeps records of the money coming into and going out of the business. "I know I need to write everything down," said Merle. "There's no way I can remember all the numbers and bits of information that pass across my desk in a day!" Although recordkeeping systems will be different for different businesses, all are used for the same purpose--to help the owner do the following.

- Keep track of revenues (money coming into the business). Like Merle, you need to know how much cash you take in every day. You also need to know about payments you receive from credit customers. Then you will know if you will be able to pay your bills.
- Keep track of expenses (money going out of the business). You need to have a record of what is spent daily in the business. You also need a record of your unpaid bills so that you can plan how to pay them (to be discussed in Unit 12).
- Write business reports. Business owners are required by the government to turn in financial reports when they pay sales taxes, payroll taxes, and income taxes. The bank also requires certain reports from owners wanting to get business loans.
- Make important business decisions. As a good business owner, you should constantly improve your business. Knowing how the business has been doing in the past helps you make decisions. For example, if Merle wants to cut down her expenses next year, she needs to know how much her business expenses are this year.

Planning Your Recordkeeping

In getting started, you must decide who will keep your records--yourself, a relative, an employee, or an outside bookkeeping or accounting service. You should know how your system works and probably should do your own books in the beginning. If someone else keeps the records, you should check them from time to time. If your business gets into trouble because of poor records, you are the one who suffers.

You should use records that meet the needs of your business. Merle, for example, takes in large amounts of bills, coins, and checks every day. Her record system would probably be different from a janitorial service that serves large companies. This business probably would not take in much daily cash but would receive monthly checks from its customers.

The records below are some of the ones that Merle used in her tire business. Other business owners may use slightly different records.

The Sales Slip

Merle used sales slips so that she and her customers could have a record of each tire sale. The sales slips helped her know how much money she took in each day and what kinds of tires she sold. Merle used the sales slip to get information about how much each credit customer owed the business. The sales slip also gave Merle's customers proof that they had bought their tires at her shop in case they needed to return a bad one.

A copy of the sales slip Merle filled out for Mike Nelson on May 1 appears on the next page.

SALES SLIP

DATE May 1

CUSTOMER Mike Nelson

Description of Sale	Price	
2 Goodstone tires (ER 78x14)		
at $35 each	70	00
Cash ☑ Subtotal	70	00
5% Sales Tax	3	50
Charge ☐ TOTAL	$73	50

Merle filled in the date of the sale, customer's name, and a description of the sale (the number of tires Mike bought, the type, and the price of each). She listed the total price of the tires to the right of the description, added the sales tax, and figured out the total Mike had to pay. She also checked off that Mike had made full payment for the tires that day (cash).

The sales slips for Jackie and Morton looked the same as Mike's except that Merle checked the block marked credit instead of cash. This told her that these customers had not paid for the tires that day but should be billed at the end of the month.

The Customer Account Form

The customer account form tells you how much a credit customer owes the business. Merle filled out her customer account forms from her credit sales slips. Jackie's customer account form appears on the next page.

CUSTOMER ACCOUNT FORM

Customer's Name & Address: Jackie Groggin, 231 Main St., Newmarket, Iowa

Date	Description of Sale	Amount Charged	Payment Received	Balance Due
May 1	2 Firebird tires (FR 78x14) at $50.00 each (+ tax)	$105.00	---	$105.00
May 15	2 Firebird tires (FR 78x14) at $50.00 each (+ tax)	105.00	50.00	$160.00

For May 1, Merle recorded Jackie's name and address, the date she took the tires, a description of the sale, the amount charged, and the amount she owed (balance due). On May 15, Merle wrote down what Jackie bought, the new amount that she charged, and the amount she paid. To figure out the new balance due, Merle added the balance due listed on the first line to the amount charged that day. Then she subtracted the payment received.

Old Balance Due + Amount Charged - Payment Received = New Balance Due

$105 + $105 - $50 = $160

The Customer Billing Form

Merle also sent bills to Jackie and her other credit customers requesting payment for the tires they had charged that month. This form, called the customer billing form, looks very similar to the customer account form that Merle kept in her office.

On one line of the billing form, Merle wrote a summary of all the charges made and payments received since the last bill was sent. She wrote down the date by which the customer should pay the bill (payment due date).

CUSTOMER BILLING FORM

Customer: Jackie Groggin, 231 Main St., Newmarket, Iowa

Payment Due Date: July 1

Billing Date	Description of Sale	Amount Charged	Payment Received	Balance Due
May 26	4 tires	$210.00	50.00	$160.00

Summary

Keeping financial records is important for all small business owners. You must decide who will do the bookkeeping for your business and what system of records you need. Three forms related to revenues that are used in many small businesses are the sales slip, the customer account form, and the customer billing form.

Individual Activities

1. Without checking your answers with anyone else, write down responses to the following:
   - What were the headlines in this morning's paper? _____
   - What did your teacher wear to the last class? _____
   - How much money do you have in your wallet? _____
   - The last time you went out to eat, how much did you spend? _____
   - What were all your major test grades in one class this year? _____

   Now, in two or three sentences, write down the main reason why financial records are needed.

2. Complete a sales slip for Morton Smith's purchase on May 1.

SALES SLIP

DATE _____

CUSTOMER _____

Description of Sale	Price	
Cash ☐ Subtotal		
(5%)Sales Tax		
Charge ☐ TOTAL		

3. Complete a customer account form for Morton Smith for the month of May.

CUSTOMER ACCOUNT FORM

Customer: _____

Date	Description of Sale	Amount Charged	Payment Received	Balance Due

Discussion Questions

1. List reasons that small business owners may give for not keeping financial records. Are these reasons good ones? Why, or why not?

2. Suppose Marshall Lu is starting a small landscaping business. He loves gardening but hates math and knows nothing about recordkeeping. What should he do?

3. Name two other sources of information (besides the sales slip) that might tell Merle how much cash she took into her cash register on a certain day. How does she get that information?

4. Suppose you run a janitorial service. You and your employees clean the offices of several large companies every night for a flat rate each month. Would you use sales slips, customer account forms, and customer billing forms for your business? Of the three forms, which would be most useful to you?

Group Activity

In small groups, decide the type of business you will run. Each group should pick different types--for example, farm equipment repair service; apparel store; and answering service. Decide how much you will charge for your products and services. Now design a customer account form for your business. Fill in some sample information to show how to use your form.

UNIT 12

Keeping Financial Records (Expenses)

Goal: To help you keep track of money going out of your business.

Objective 1: List the two parts of a checkbook and the purpose of each.

Objective 2: List two types of business revenues and three common business expenses.

Objective 3: State the purpose of a daily cash sheet.

MERLE KEEPS TRACK OF EXPENSES

As soon as Merle Hamilton started planning her tire business, she opened a business checking account at her bank and deposited $5,000. She began using her business checks to pay all the expenses for Quality Tire. She kept a record of every check she wrote and of the amounts she owed. Every day she also listed all her revenues and expenses on a daily cash sheet.

On May 30, after one month of business, Merle had a balance of $3,200 in her checking account. On that day, Merle did some buying for her store and paid some of her bills. She bought $25 worth of office supplies from the local stationery store and paid in cash. She also wrote the following checks: $200 to Ray Pierce, the student who worked for her part-time; $300 to Hawthorne Realty for rent; and $50 for electricity. She also wrote checks for $175 for her monthly payment for her hydraulic lift and $1,600 to Goodstone Tires for 40 new tires that she had just received. "I figure out the new balance in my checking account every time I write a check," said Merle. "I want to be sure I don't spend more money than I have. If I overdraw, the bank charges me a fee."

Merle took in $350 in cash for tires on May 30, and Morton Smith brought in a check for $150 to pay part of his bill. Merle deposited this money in the bank that afternoon. After work, Merle prepared a daily cash sheet. On it she listed all the money that she had received or paid out that day.

"I knew you needed to like people in this business and that you should know something about tires. But I never realized how much paper work there would be. It's important to keep up with it. When my business gets bigger, I plan to hire a part-time person to work the cash register and keep the books. Even then, I'll want to check the records at least once a week. I'm the one who will lose money if my records contain mistakes."

Keeping Financial Records

Merle knew that she needed to keep track of the money coming into her business (see Unit 11). She also needed a system for paying her bills and recording her expenses. It was important to have a simple way of listing all the daily revenues and expenses of her business.

The Business Checkbook

A business checking account is very important for the small business owner. The three steps in using a checking account are:

- depositing revenues from the business into the account;
- writing checks to pay business expenses; and
- checking the monthly bank statement to make sure your record of deposits and payments agrees with the bank's record.

The business checkbook consists of two parts.

- The check is used to pay the expenses of the business.
- The check stub (which may be attached to the check or placed in a separate pocket of the checkbook) is used by the business owner to record deposits and payments.

Every time you write a business check, you should fill out the check stub. The check goes to the person to whom payment is due, and the stub is kept for your records.

On the next page is a copy of the check and stub Merle filled out to Hawthorne Realty for her rent payment.

Check No. 104 $300.00 Date 5/30 To Hawthorne Realty For June rent --- Bal. Bro't. For'd. $3,200 Amt. Deposited + 500 TOTAL 3,700 Amt. this check - 300 Bal. Car'd. For'd. $3400	FIRST NATIONAL BANK Check No. 104 Date May 30 Pay to the order of Hawthorne Realty $300.00 Three hundred and 00/100 dollars. Quality Tires 150 North Avenue Newmarket, Iowa Merle Hamilton

On the check Merle wrote the date, the name of the person or group receiving payment (pay to the order of), and the amount of payment (in both numbers and words). She also put her signature on the check.

On the check stub, she copied the number of the check, the amount, the date, the person receiving payment, and the purpose of the check (for June rent). She copied the balance brought forward from her previous check stub. This was the amount of money Merle had in her account before she wrote this check.

Merle figured out the total amount of money that she wanted to put in her checking account that day--$350 (from cash sales) + $150 (in payment for past credit sales) = $500. She listed this amount under amount deposited. She added this figure to the balance brought forward. She found that, not counting the check she was writing, she had a total of $3,700 in the business checking account. Then Merle wrote down the amount of her check ($300). By subtracting this amount from the total in her account, she figured out how much she had left (balance carried forward = $3,400).

Other Ways of Keeping Track of Expenses

Merle also kept a file of her unpaid business bills. She filed them in order by the date the bill needed to be paid, and she wrote her checks in this order. Once she wrote the check, she wrote "paid" on the bill and filed it under the name of the person or company sending the bill.

Many small business owners also keep a separate record (ledger) for each type of payment (rent, equipment, etc.). On this form they make a record of every time money is paid out. When they prepare yearly financial reports, for example, they can easily add up all the figures on the page and find out the total spent on a certain item (such as rent) for the year.

The Daily Cash Sheet

To list all the money coming into and going out of the business in a day, Merle filled out a daily cash sheet. She got the information to fill out this sheet from some of her other records--such as her sales slips, customer account forms, and check stubs. Merle's daily cash sheet for May 30 appears below.

DAILY CASH SHEET

Cash Revenues		Cash Payments	
Cash Sales	$350.00	Salaries	$ 200.00
Credit Sales	150.00	Building Expenses	300.00
		Utilities	50.00
		Equipment and Furniture	175.00
		Inventory	1,600.00
		Supplies	25.00
		Advertising	
		Other	
TOTAL CASH REVENUES	$500.00	TOTAL CASH PAYMENTS	$2,350.00

On the left side of the form, Merle listed the money coming into the business that day (revenues):

- cash sales (money coming in from customers who pay for products or services at the same time they buy); and
- credit sales (money coming in from customers who charge their products or services and pay for them at a later date).

On the daily cash sheet, Merle listed only cash she has already received from past credit sales, not money that customers still owe her.

On the right side of the form, Merle listed all the money going out that day (payments):

- salaries (money paid to employees);
- building expenses (the amount paid monthly to rent the building and to pay for cleaning and minor repairs);
- utilities (money spent on gas, electricity, and water);
- equipment and furniture (amount spent on business machinery, cars and trucks, calculators, desks, etc.); and
- inventory (amount spent on the goods the business will resell to the customer).

Two other expenses that often appear on cash sheets include:

- advertising (amount spent to tell customers about the business and to persuade them to buy); and
- other (amount spent on insurance, special licenses and taxes, and fees for lawyers, accountants, etc.).

Merle filled in a cash sheet every day. By combining the information from the cash sheets with other records, she can prepare business reports for herself, the government, and the bank. Merle can look at her financial reports when she wants to make important decisions about her business.

Summary

You should have a business checking account to pay the expenses of your business. The check is used to pay the bills, and the check stub is used to record your payments (and deposits). The check stub also provides a record of the amount of money in your checking account on a given day.

The daily cash sheet is used to record the cash flow for the day. It is also used to prepare other financial reports. For example, information from cash sheets is used to prepare the balance sheet and the profit/loss statement. You will learn about profit/loss statements in Unit 14. If you do go into business for yourself, get the advice of a bookkeeper or accountant about how to complete a balance sheet.

Learning Activities

Individual Activities

1. For each record form listed below, choose the phrase best describing its use.

_____ Cash Sheet	a. To pay business expenses
_____ Check	b. To request payment from credit customers
_____ Check Stub	c. To record purchases of cash or credit customers
_____ Customer Account Form	d. To record a customer's payments and debts to the business
_____ Customer Billing Form	e. To record all a business receives and spends in a day
_____ Sales Slip	f. To record bank deposits

2. Fill out the check Merle wrote for Ray Pierce (check #105). Also complete the check stub, and figure out the new balance carried forward.

Check No._____ $_____
Date _____
To _____
For _____
_____
_____
- - - - - - - - - - -
Bal. Bro't. For'd. _____
Amt. Deposited _____
TOTAL _____
Amt. this check _____
Bal. Car'd. For'd. _____

FIRST NATIONAL BANK

Check No. ___

Date_____

Pay to the order of _____ $_____

_____ dollars.

_____

3. On June 5, Merle took in $1,000 in cash sales and $150 from past credit sales. She wrote a $50 check to pay for an ad she ran in the

Plains News. She also bought a desk calculator for $181 and paid a $49 insurance bill. Complete Merle's daily cash sheet for June 5.

DAILY CASH SHEET			
Revenues		Expenses	
Cash Sales	_____	Salaries	_____
Credit Sales	_____	Building Expenses	_____
		Utilities	_____
		Equipment and Furniture	_____
		Inventory	_____
		Supplies	_____
		Advertising	_____
		Other	_____
TOTAL REVENUES	_____	TOTAL EXPENSES	_____

Discussion Questions

1. On Merle's cash sheet for May 30, her expenses were much larger than her revenues. Does this mean Merle's business was in trouble? What would be a better way of finding out how much cash she really had?

2. Discuss why the bank sends a monthly statement to its checking account customers.

3. What kinds of important decisions will Merle probably have to make in a year of business? What information will she need to make these decisions? Which financial records would be possible sources of this information?

Group Activity

Suppose a group of you and your friends are running a gardening service in your neighborhood. Decide on the financial record forms you will use to keep track of your revenues and expenses. Develop your own forms if you like. Use as few forms as possible, but make sure your records give you all the information needed to prepare your income tax and to do future planning for your business.

UNIT 13

Making Sure You Have Enough Cash

Goal: To help you keep track of the cash in your business.

Objective 1: List three ways of keeping your business successful.

Objective 2: State the purpose of a cash flow statement.

ESSIE FACES A CASH FLOW PROBLEM

Essie Washington owns a nursing service in Washington, D.C. She has a staff of RNs and LPNs whom she sends to fill openings at the City Hospital and in private homes. She started Nursing Temporaries in February of this year, and her business has been growing quite rapidly. Now at the end of six months, however, Essie is having some problems.

"It's been a problem from the beginning, really. You know how red tape is! Well, it takes forever for the hospital to pay the bills I send them for the nurses they've used. I got a big loan to start out. I thought I could get along on that until the money started coming in from the hospital. I don't think I borrowed enough money, though. Also, last month I had to spend extra on a typewriter when my old one broke down. Luckily, the families who use my home nursing service pay me every week, so that money comes in pretty regularly."

Essie wrote down the revenues and expenses she expected to have in August, September, and October. She figured out that her total cash income would be $8,300 for August. She would do more business than that in August, but she wouldn't get the money from the hospital for about two months. Her expenses for August would be $8,150. This meant that, at the end of the month, she would have only $150 left over. If the hospital didn't send in all she expected, or if she had more emergency bills, she might not have any money left over. She might even be in debt!

If things went the way she expected, Essie would be "in the red" in October. Her cash expenses would be more than her cash revenues; she would be paying out more than she would have in her bank account!

Essie went immediately to her Uncle Leroy. "I have a cash flow problem," she said. "I'd like to borrow $1,000 to get me through the summer. I'll raise my rates in the fall; also, more money will be coming in by then." Leroy looked at Essie's financial records and promised to help her through her crisis.

Making Sure You Have Enough Cash

Starting a small business is just the beginning. As you run your business, many decisions and problems will come up. Keeping your business successful is a day-in, day-out job. Besides all the other things you should do to keep things running smoothly, you should keep your business successful by:

- making sure you have enough cash;
- keeping your profits up and your costs down; and
- improving your products and services.

Why You Should Keep Track of Your Cash

Essie's business was growing. She was getting more calls for nurses every month from City Hospital. More families were calling her for home care nurses, too. Essie's monthly expenses were fairly low. She was living off her savings, so she wasn't even taking a salary for herself. Still, she had a cash flow problem.

What Essie owned and what she was owed by others (such as the hospital) were more than what she owed to other people. In other words, her net worth was good. However, the cash was temporarily "flowing out" of her business faster than it was "flowing in." Essie had to pay her bills promptly every month. The hospital, on the other hand, was very slow to pay her the money it owed. This is called a "cash flow" problem. Many businesses have this problem at one time or another.

The main reason for keeping track of the cash in your business is to know whether you will have enough money every month to pay your bills. By estimating your cash flow a few months ahead of time, you will also know whether you will have extra cash on hand. If so, you will be able

to afford to improve your business (for example, buy more equipment). Or, you can put your money in short-term investments, which will earn interest.

The Cash Flow Statement

The best way to keep track of your cash flow is to use a cash flow statement. You can prepare a cash flow statement for the past months of your business or a "projected" statement for the coming months.

Essie's projected cash flow statement appears below. It lists the cash she expects to take in and pay out in the next three months. The cash flow statement does not list the money owed to Essie or the money she still owes others.

CASH FLOW STATEMENT
PROJECTED FOR NEXT THREE MONTHS

Cash Revenues	August	September	October
Cash on hand from previous month	$ 200	$ 150	$ ____
Revenues from hospital	4,100	4,200	4,300
Revenues from home care	4,000	4,100	4,200
Total Revenues	$8,300	$8,450	$ ____
Cash Payments			
Salaries to nurses	$7,000	$7,200	$7,500
Other expenses + payments[1]	1,150	1,150	1,150
Total Expenses	$8,150	$8,350	$8,650
Cash on hand at end of month	$ 150	_____	_____

[1] Includes rent, equipment and furniture, supplies, advertising, and other expenses.

On Essie's statement, she wrote down the cash revenues and payments she thought she would have for August. Under cash revenues, she listed the cash she had on hand at the end of July ($200), the revenues that would come in from the hospital ($4,100), and the revenues to be paid by families for home care that month ($4,000).

Under cash payments, she listed the salaries she would have to pay to her nurses in August ($7,000). To figure out her other expenses and payments, she totaled all the rest of the money she would have to pay out--rent and janitor ($500), equipment and furniture ($300), office supplies ($50), advertising ($150), and other expenses ($150). She figured that this amount ($1,150) would be the same for the three months.

Essie then subtracted her total cash payments from her total cash revenues for the month. Her cash on hand at the end of the month equaled $150.

Essie also filled in the revenues and payments she expected to have in September and October. She copied the cash on hand at the end of August in the first blank under September (cash on hand from the previous month). After she figured out the total cash on hand for September, she completed her cash flow statement for October.

Ways to Improve Cash Flow

As a small business owner, you may discover that you have a cash flow problem. There are many ways to help solve this problem. Essie borrowed money so she could pay her bills. She thought that this money would help her get on her feet and that, by fall, everything would be okay. Essie also decided to try to increase her revenues (by raising prices) and to lower her expenses. Then her cash on hand at the end of the month would be higher.

Other ways of solving a temporary cash flow problem are to:

- get people to pay their bills sooner;
- cut down on the amount of goods you buy for resale;
- try to buy certain things on credit; and
- take less cash out of the business for your salary.

Summary

Part of keeping your business successful is making sure your cash revenues are greater than your cash payments each month. You can make sure you have enough cash each month by preparing a cash flow statement for a few months ahead. If you see shortages coming, you can make changes in your business so that you will be able to pay your bills. If you know that you will have extra cash, you can make plans to use it wisely.

Learning Activities

Individual Activities

1. Below are sentences describing the cash flow statement and the projected cash flow statement. Write "T" if the sentence is true, and "F" if it is false.

   A Cash Flow Statement will tell you:

   _____ a. how much cash you took in last month.
   _____ b. how much people owed you last month.
   _____ c. how to invest your extra cash.
   _____ d. how much cash you have left at the end of the month.

   A Projected Cash Flow Statement will tell you:

   _____ e. how much you spent on rent last month.
   _____ f. how much you plan to spend on salaries next month.
   _____ g. whether you should think about getting a loan.

2. Fill in the blanks on Essie's cash flow statement.
   a. Figure out her cash on hand at the end of September.
   b. Fill in the cash on hand at the beginning of October.
   c. Figure out how much cash she will have at the end of the month.

   If Essie has a "negative cash flow" (if she will be paying out more than she will have), put this number in parentheses.

Discussion Questions

1. How is it possible to have lots of customers and still not be able to pay your bills? What can you do to solve this problem?

2. Essie figured that City Hospital would use six of her nurses for 100 hours each in August. She charged $10 per hour for each nurse. How much money did she expect the hospital would owe her at the end of the month? Why did she only list $4,100 under "revenues from hospital" on her projected cash flow statement for August?

Group Activity

Yolanda Gomez owns a children's clothing store. At the beginning of July she had $15,000 worth of clothing for sale in her shop. She planned to spend $4,000 more on clothes in July. She also had $1,000 on hand from June.

Yolanda thought she could make $5,000 in cash sales in July. She was also planning to start giving 60-day credit to her customers as of July 1. She figured her new credit customers would charge $3,000 worth of clothes in July, which they'd pay for in August and September.

Yolanda decided to fill out a projected cash flow statement for July (on the next page). She listed the money she expected to receive and also the money she planned to pay out.

PROJECTED CASH FLOW STATEMENT

FOR JULY

Cash Revenues	
Cash on hand from previous month	$ 1,000
Cash sales	5,000
Credit sales	3,000
Total	_____
Cash Payments	
Salary (for herself)	$ 900
Inventory (more children's clothes)	4,000
Other expenses and payments	1,200
Total	_____
Cash on hand at end of month	_____

Is Yolanda's statement filled out correctly? Make any needed corrections and then figure out the totals.

Will Yolanda have enough cash at the end of the month? What can she do to improve her cash flow? (List as many solutions as possible.)

UNIT 14

Keeping Your Profits High

Goal: To help you study your business' finances and keep your profits high.

Objective 1: State the most important financial goal of any business.

Objective 2: Explain the purpose of the profit/loss statement, and list three of the main parts.

Objective 3: Explain the value of the profit ratio and expense ratio.

Objective 4: State two ways to increase your profit.

RACHEL CHECKS HER COMPANY'S HEALTH

Rachel Shapiro started her answering service in January 1979. After a slow start, she made a good profit in 1980. At the end of 1981, Rachel thought something was wrong. She looked at her profit/loss statements for the last two years. She had had more customers in 1981 and had brought in more money ($50,000 in 1980 and $55,000 in 1981). Her expenses also had increased quite a bit. Her profit, however, had increased only a small amount. "My profit is not growing as fast as my revenues or expenses. That's a bad sign," she thought.

Rachel decided to make some changes in her business so her profit would be better next year. She decided to raise the monthly rate for her answering services. She would also try to cut costs.

"My greatest increases this year were in salaries and advertising. I had to raise the salaries of my two part-time operators to keep up with the competition. However, one of my people just quit, so I think I'll hire the new operator to work 15 hours a week instead of 20. We can still handle the calls, and I'll be spending less on salaries."

Rachel also thought she could cut down on the money she spent on advertising. "The cost of printing and mailing letters is going up fast. I don't get many new clients through the direct mail ads I send, anyway. I think I'll keep my Yellow Pages ad and send out fewer direct-mail ads. Then I can reduce my advertising costs a lot."

Rachel told her accountant about her decisions. He said, "Your ideas are good, Rachel. If you do what you've planned, your business will probably be healthier next year. Good luck!"

What Is Profit?

As a small business owner, making a profit is your most important financial goal. Profit is the reward for all your hard work, your investment, and the risk you took. Profit is also the amount left over after all the expenses are paid from the revenues of the business. This kind of profit is called net profit.

What Is a Profit/Loss Statement?

The best way to find out how much profit you have made in your business is to prepare a profit/loss statement. This report tells you how much income you earned, how much your costs and expenses were, and how much profit you made during a certain period of time. By having this information, you can make changes in your business to make it more successful in the future.

The profit/loss statement has five main parts.

- Revenues refer to the money coming into the business (also called the sales of a business). Rachel's revenues came mainly from the monthly fees she charged her customers for answering their phones. She also received extra earnings from time to time for helping customers send out letters and bills.
- Cost of Goods Sold refers to the amount spent on goods that were resold to the customer. Cost of goods sold does not apply to Rachel's business since she is selling services, not goods. The owner of the mobile catering business in Unit 9, however, had to think about cost of goods sold in figuring out prices for his sandwiches. His cost of goods sold included the money spent on sandwich makings and lunch supplies.

- Gross Profit is the amount left over from the revenues after paying the cost of goods sold.
- Operating Expenses refer to all the other costs of running the business. This includes employees' salaries; rent; utilities; equipment rental; repair and depreciation of your own equipment; office supplies; advertising; and other expenses. Rachel's "other expenses" were for accountant fees, interest on her loan, and insurance.
- Net Profit is the amount left over after all the expenses of the business have been paid. Net profit covers Rachel's salary and her income taxes. It also includes money used to expand her business (such as to buy new office furniture).

Rachel's accountant prepared statements for 1980 and 1981. The profit/loss statement for 1980 follows. Notice the five main parts.

PROFIT/LOSS STATEMENT

	1980	
	$	%
Revenues		
Regular Service to Clients	$49,152	
Extra Services	848	
Total	$50,000	100%
*Cost of Goods Sold		
*Gross Profit		
Operating Expenses		
Salaries (2 part-time operators)	$12,400	
Rent	4,080	
Utilities	1,540	
Equipment Rental (phones)	4,200	
Supplies	1,240	
Advertising	2,980	
Other	3,560	
Total	$30,000	60%
Net Profit (before Rachel's salary and income taxes)	$20,000	40%

(*These two sections do not apply to Rachel's business because she does not sell any goods, only services.)

How to Figure Out Your Profit

From Rachel's daily records (such as her daily cash sheets), the accountant was able to find all the figures he needed to complete a profit/loss statement for the year. He added all Rachel's revenues and found the total operating expenses.

By subtracting total expenses from total revenues, he found Rachel's net profit (net profit = revenues - expenses). If her expenses had been greater than her revenues, this total would have been a negative number, written in parentheses. This is called a loss. For businesses with cost of goods sold, net profit = gross profit - expenses.

How to Decide if Your Profit Is Good Enough

Rachel also had her accountant figure out two percentages:

- The profit ratio is a percentage comparing net profit to revenues. In 1980 Rachel's profit ratio was 40%. This means her profit was 40% of the total money her business earned in that year.

$$\text{Profit ratio} = \frac{\text{net profit}}{\text{revenues}} = \frac{\$20,000}{\$50,000} = 40\%$$

- The expense ratio is a percentage comparing expenses to revenues. In 1980 Rachel's expense ratio was 60%. In that year, 60% of her revenues went to pay her expenses.

$$\text{Expense ratio} = \frac{\text{expenses}}{\text{revenues}} = \frac{\$30,000}{\$50,000} = 60\%$$

These percentages help small business owners compare their profits and expenses in different years of business.

Rachel's profit/loss statement for 1980 and 1981, including profit and expense ratios, appears on the next page.

TWO-YEAR PROFIT/LOSS STATEMENT

	1980		1981	
	$	%	$	%
Revenues				
Regular Service to Clients	$49,152		$53,760	
Extra Services	848		1,240	
	$50,000	100%	$55,000	100%
Expenses				
Salaries (2 part-time operators)	$12,400		$14,168	
Rent	4,080		4,680	
Utilities	1,540		1,660	
Equipment Rental (phones)	4,200		4,680	
Supplies	1,240		1,300	
Advertising	2,980		4,000	
Other	3,560		3,612	
	$30,000	60%	$34,100	62%
Net Profit (before Rachel's salary and income taxes)	$20,000	40%	$20,900	38%

In comparing the profit ratios for the two years, we see that Rachel earned more profit dollars in 1981 than in 1980--one good sign of a healthy business. However, her profit ratio was smaller (40% in 1980 and 38% in 1981). Rachel thought that a 40% profit was just right for her business. She hoped that next year she could get her profit ratio back up to the 1980 level.

How to Increase Your Profit

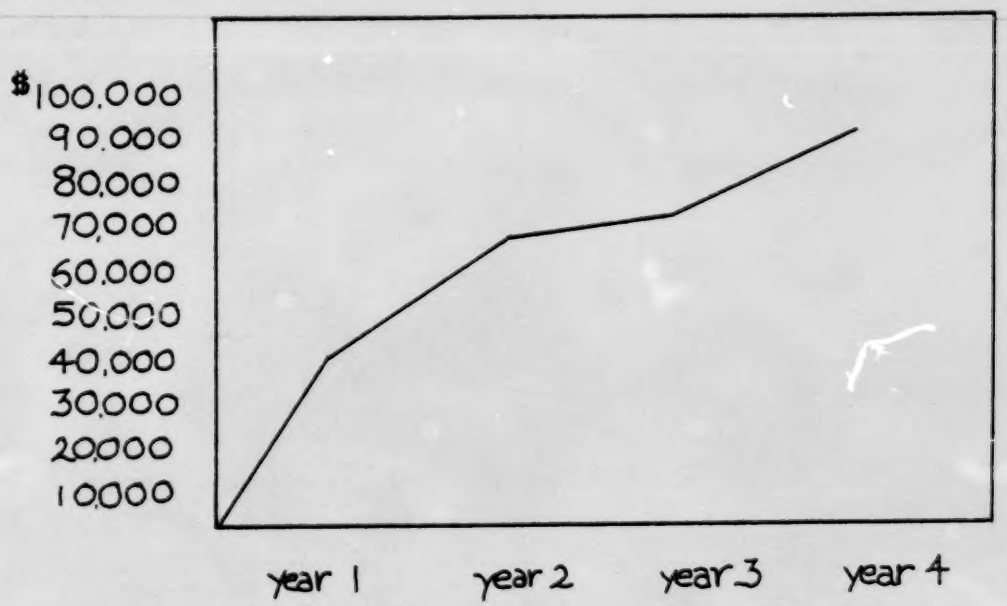
There are two main ways to increase profits in a small business.

- **Raise revenues.** This can be done by getting more customers or by raising prices to present customers. Since prices were rising all around her, Rachel decided to raise her prices, too.
- **Lower expenses.** Each small business owner must decide the best way to cut business costs. Rachel planned to do it by reducing the work hours of one of her employees. She also was going to spend less on direct-mail advertising. Other ways she could

have cut her expenses are to move to a lower-rent office or to buy her office supplies from a less expensive supplier.

Summary

As a small business owner, you should set a profit goal for your business based on your needs. Then you should try to keep your profits at that level. You can check how much profit you are making by preparing a profit/loss statement for your business every year (or every quarter). By figuring out your profit and expense ratios, you can compare the profits and expenses of two different time periods in your business. If your profit ratio is not high enough, you can try to raise it by increasing your revenues or by decreasing your expenses.



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	$	%	$	%
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Expenses				
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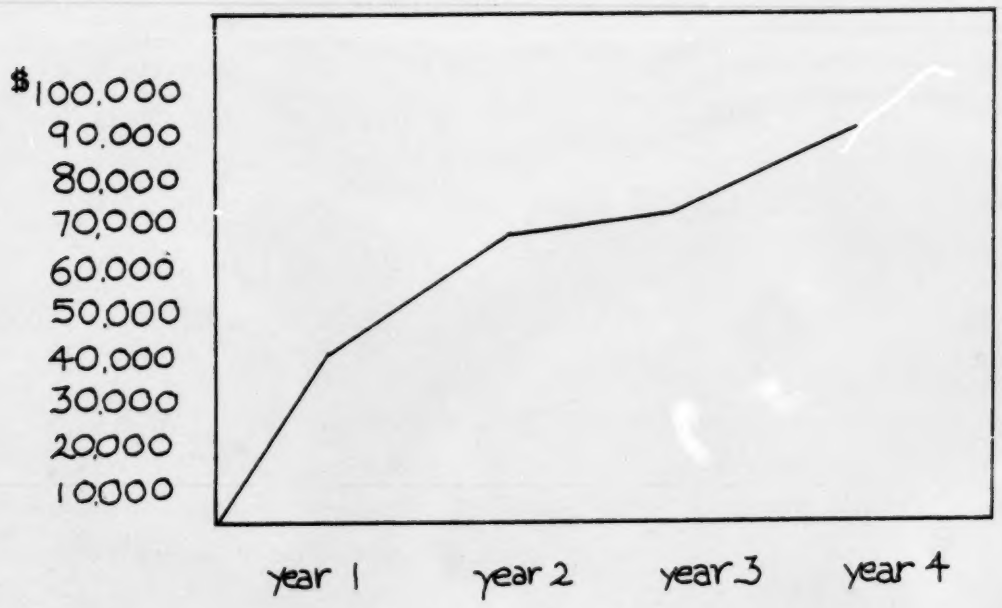

Learning Activities

Individual Activities

1. Match the following definitions with the correct word.

_____	Costs (such as salaries) related to running the business	a. Revenues
_____	The amount coming into a business from the sale of goods and services	b. Cost of goods sold
_____	The amount left over from the money received after the bills are paid	c. Gross profit
_____	The amount paid for products that will later be purchased by the customer	d. Operating expenses
		e. Net profit

2. Choose the correct formulas below.

Net profit =
a. revenues + expenses
b. revenues - expenses

Profit ratio =
a. $\frac{\text{net profit}}{\text{revenues}}$
b. $\frac{\text{net profit}}{\text{expenses}}$

Expense ratio =
a. $\frac{\text{expenses}}{\text{revenues}}$
b. $\frac{\text{revenues}}{\text{expenses}}$

3. On the next page is information on Rachel's business in 1982. Figure out her net profit, profit ratio, and expense ratio, and write them in the blanks provided.

1982

	$	%
Revenues	$60,000	100%
Expenses	36,000	___%
Net Profit	$_____	___%

Compare these figures with Rachel's figures for 1980 and 1981. In which year(s) did Rachel have the highest net profit? The highest profit ratio?

Discussion Questions

1. Discuss this quote from John Buckley, another small business owner. Do you agree with him? Why, or why not?

   "I don't care about profit/loss statements. If I have money left over at the end of the month after I pay my bills, I'm happy. All that recordkeeping is for the birds!"

2. Why is it important to compare profit ratios as well as profit dollars? How do profit and expense ratios help you decide how your business is doing?

3. List some specific things a small business owner can do to increase his or her profit. Will raising expenses or lowering prices ever help? Why, or why not?

Group Activity

Read what Harry Reston says about profit.

"Earning a profit may be one reason for being a small business owner, but it's not the only reason. Being a small business owner, I don't make as much money as I could working in many large companies, but I love my business! The other benefits besides money make it all worthwhile."

Make a list of the "other benefits" Harry could be talking about. Are these important to you?

UNIT 15

Keeping Your Business Successful

Goal: To help you decide how to change your products or services to keep your business up to date.

Objective 1: State two ways of increasing sales in your business.

Objective 2: List several ways of getting information to use in changing your business.

FROM PLANT PARTIES TO A PLANT SERVICE

Louise Kelly started her plant business--Kelly Greens--two years ago. By working part-time out of her home, she has been able to earn a good income and still take care of her small son. Louise started her business by giving plant parties in her friends' homes. "My sales were good at first because indoor plants had just become popular for decorating the home. Lots of the plants I sold at first died. I decided some were too hard for most people to take care of. These I dropped from my line real quickly."

"I found that some people couldn't even take care of the easy plants. They'd call me a few weeks after a party to ask me questions. It soon got to be a big hassle giving all kinds of information over the phone--for free! I decided to make up booklets and sell them along with the plants for a slightly higher price. People then were more willing to buy new and different plants, since they came with written directions. Thus, I sold more. I also made more profit on each plant. Soon I decided to start classes on plant care. I announced these at the plant parties and tried to get a group of friends to sign up together. At these classes I mainly taught, but I also sold plants if anyone wanted them.

"Then my plant sales began to suffer. Most of my friends already had all the plants they needed. Also, a nationwide company, Plant Parties, Inc., had started working in my area. It gave fancier parties and sold its plants at lower prices than I could. This hurt my business.

"I began to read all the business magazines I could find. I learned that 'services' were becoming more common because people didn't have much time to do certain things for themselves. I studied my neighborhood, too, and noticed the new shopping mall and medical building that were being built close to my home. One day I was having lunch at the mall. Its plants looked horrible! I asked the restaurant owner if he would like someone to pick out new plants for him and to care for them every week. He said he'd love it. A few other restaurant owners and some doctors said the same thing. Several of them signed contracts for my monthly plant service, and my new business began! My husband recently built a greenhouse at home so I can grow the plants I need."

Keeping Your Business Successful

Sometimes in your small business you may have a year when sales are high and then a year when sales are not so high. Or maybe your sales will not increase as fast as you'd like. Every once in a while you should take time out to see how your business is doing. Look at how things are changing in the business world around you. Then think of ways to change your business to keep it up to date. In this way you can solve problems when they're small and, better still, prevent others.

Your small business may never become a large business. Many small business owners prefer to keep their companies small. The business is easier to run and can be more personal to customers. However, all small businesses must change to keep in line with the changes around them. Businesses that don't change or grow will die.

Ways of Increasing Sales

There are two things you can to do increase sales in your business.

- Improve your products or services. In your business, you may find that your products aren't selling well. Your workers may get careless and do poor work, and your customers may complain. Sometimes flaws will show up in a product you've been selling for a long time.

  Like Louise, you need to watch out for these failings and try to correct them. Louise improved her business by dropping certain plants that were hard to grow and by including directions on plant care. If her plants had been sickly, she could have chosen another supplier whose plants were of higher quality.

  Another way to improve a business is to try to give better service. If you have workers, you can remind them to be polite

to customers. If someone can't do a job, you can shift tasks or replace workers. Or you can give special classes to help workers do their job better.

- Change your products or services. All products and services have a "lifetime." There is a point when people do not want or need them anymore. For example, people no longer want to buy hoola hoops, and they no longer need to buy blocks of ice to preserve their food. Both products used to be "good sellers," but times have changed.

  As a small business owner, you need to know when to stop selling one thing and to start selling something else. At a certain point, Louise realized that her plant parties were no longer successful. The demand for plants had decreased, and the competition had increased. So she stopped planning parties. At the same time, she saw other needs in her area--plant care classes and a plant care service for businesses. She changed her business to meet these needs. In this way, she kept her business up to date.

How to Get Information to Use in Updating Your Business

By looking at your profit/loss statement, you can compare this year's sales and profits with those of last year. You can also compare the sales brought in by a particular product or service with last year's sales. This will give you an idea about whether you need to change your products or services. For example, although Louise's total sales increased in the second year of business, her sales of indoor plants decreased during this time. She knew she had to do something about that part of her business.

There are other ways you can find out how your business should be changed. These are similar to the ways you can collect information about starting a business.

1. Check your products or services. When you receive products that will be sold to the customer, look at them carefully to see if

they are in good condition. If quality is poor, tell your supplier, or change products. Take time out to watch your employees doing their work. Are they polite, careful in their work, and good at selling? If you find mistakes in their work or think of ways to do the job better, make the changes as soon as possible.

2. Listen to your customers. By asking questions and listening, you can find out what your customers think of your business. You can ask customers why they aren't buying a product they used to buy, or why they're choosing product A over product B. You can also take a survey of your customers to find out whether their buying habits have changed. By talking to her friends, Louise found out that they wanted to learn more about plant care. That's how she got the idea of starting plant classes. Louise also learned a lot from what her customers did not say. When people stopped calling to arrange for plant parties, she knew something was wrong, and she had to make a change.

3. Study changes in your neighborhood. As Louise found out, business areas change. When this happens, it may mean that your business' products or services should change, too. The age or income level of the people living near your business may change. Other businesses may move into your area and give you more competition. Businesses may move out of your area or traffic may decrease on your street--meaning fewer customers for your business.

   Louise saw the new office buildings and stores in her area as a chance to change her business and make more sales. If she hadn't changed her services, Louise would probably have had to move her business to another location where her plant parties would be more popular.

4. Find out about the competition. A good way to find out about changes needed in your business is to find out what other similar companies are doing. Read their ads or go to their stores or offices. Compare the quality of their products or services and their prices with yours. Are they offering any products or services that you aren't--like free delivery? Can you do a better job than they are in these areas by making a few changes? If

not, you should try to make your business different so you can compete better.

Louise went to a party given by Plant Parties, Inc. and saw that the company had many good ideas. She realized that it could offer lower prices and "extras" because it was a larger company. She chose to change her business, because she knew she couldn't compete.

5. Read about trends. The success of your business depends on knowing what other business owners, inventors, government people, customers, and suppliers are doing and thinking. You should do some reading to find out what new businesses are starting and what new products and services are being sold. Think about whether you can use some of these new ideas in your business. Louise noticed that service businesses. She decided to offer plant care services to businesses. Other new ideas that could be used to update a business are to "computerize" it or to offer "instant" or "disposable" products.

   Read about businesses that are failing also. Realize that if your business is similar, it may start to have problems soon, too. Update your business before it's too late.

   You should also find out how people's habits and tastes are changing. Think about how social changes can affect your business. For example, try to think how to change your business to reach the growing number of older people in our country.

Summary

You should always be watching for ways to improve your business. To stay successful, you must either improve your business or change it. To decide whether you should "do the same thing better" or "do something new," you should collect information. Look at your products and services, talk to your customers, and see if your neighborhood is changing. Also study your competition and new business trends. Then act to make your business better.

Learning Activities

Individual Activities

1. Read the business section of a newspaper or magazine. Bring in one clipping that describes a new business idea. Explain why you think the idea is a good one and how it could be used in a certain business.

2. Suppose you have been running a summer day care center for children aged 5-10 for several years. Sales are down from last year. How could you find out what to do to improve sales? Be as specific as possible.

Discussion Questions

1. Can you think of other ways Louise could have changed her business when her plant party sales went down?

2. Make a list of economic, business, and social trends today. Try to think of as many changes as you can that might affect the products and services a certain business offers.

3. One advantage of owning a small business is that you can change it more easily than a large business. Why do you think this is true? What are some factors that may prevent you from changing your business?

4. Discuss the following quotation from Emery Stone:

   "When I started my business, I wanted to make lots of money. I did lots of planning so my business would grow fast. Now, a few years later, I have 50 employees and three offices. The business is still growing. This is the only way to go!"

Do you agree with him? Why, or why not? List the pros and cons of becoming a large business.

Group Activity

As a class, list at least 15 different activities that you would have to do if you were going to start a small business. Here are some examples to get you started.

Check out several places for the best location
Interview people to hire
Order paper and supplies

After you have your list, see how you feel about doing each of these tasks. Give yourself 3 points if you would enjoy doing that task, 2 points if you wouldn't mind doing it, 1 point if you would do it, but wouldn't like it, and 0 if you wouldn't do it, no matter what!

There are no "correct" answers. This is just an exercise for you to see if owning and operating a small business might be for you

SUMMARY

To be a successful small business owner you should have certain personal qualities. You should have drive, be able to think clearly and imaginatively, and be a leader who works well with people. You also must take charge of all aspects of the business--at the same time. You must plan your business, be in charge of people, organize the work, buy and keep track of supplies, set prices, advertise and sell, keep financial records, and keep your business successful.

Planning is a major part of small business ownership. Planning involves deciding whether to start a small business, choosing the products or services to offer, deciding on the legal form of ownership, choosing a location, and obtaining a loan. To plan, you must study what is going on in the business world around you and prepare various written plans and reports. For example, you should write down information about your experience, training, and finances in order to get a bank loan. You will also need to prepare for the bank a business description and financial statements about your business.

Organizing workers and work is important to the smooth operation of a business. This involves seeing all the tasks that need to be done and organizing your workers to do them. You also must be able to get along well with people.

As a small business owner, you must keep track of the supplies, set prices, and advertise and sell your goods or services. You must also solve business problems as they come up. This may mean you will have to raise or lower prices or train your workers to be better salespeople.

Financial recordkeeping is a necessary part of small business ownership. Records help you manage the money in your business successfully. The system you choose for your business should be as simple as possible. It should also be complete enough to give you all the information you need to make good management decisions.

As your business grows, you must check to see how well it is doing. Then you must change your business based on what you find out. You should make sure that you have enough cash, that your revenues and profits are high, and that your expenses are low. You should plan for changing your business products or services when needed.

In order to own and operate a successful small business, you need training in vocational skills related to the business you choose. You will also need work experience and the special business management skills that were covered in this module. If you have not had a course in the vocational skills you need, you should take one before deciding to own a small business. You can learn business management skills through business classes, experience, or by using the advice and example of an expert.

You may not make a lot of money by owning a small business. However, you will have the personal satisfaction of being responsible for your business and making your own decisions. Think about how important these things are to you in considering whether you should start your own small business.

QUIZ

1. List three personal qualities a small business owner should have.

   a. _____

   b. _____

   c. _____

2. List five major responsibilities that a small business owner has.

   a. _____

   b. _____

   c. _____

   d. _____

   e. _____

3. List three things you would want to find out about a location before deciding to open a business there.

   a. _____

   b. _____

   c. _____

4. List three sources of money for starting a small business.

   a. _____

   b. _____

   c. _____

5. In setting the price of a certain product, you should:

   _____ a. charge a little more than your competitor.

   _____ b. charge a little less than your competitor.

   _____ c. charge enough to cover your costs and expenses.

   _____ d. charge enough to make a profit.

6. The best advertising medium to use for a small service business is:

_____ a. the newspaper.

_____ b. the Yellow Pages.

_____ c. the radio.

_____ d. an outdoor billboard.

7. To make a sale, you first should greet the customer and then:

a. present the product to the customer.

b. encourage the customer to buy.

c. discuss prices of different products with the customer.

d. ask the customer questions.

e. answer the customer's questions.

8. List three things you should study in order to decide what products and services to offer in your business.

a. _____

b. _____

c. _____

9. List four steps involved in hiring a worker.

a. _____

b. _____

c. _____

d. _____

10. List three things to think about when buying goods for your business.

a. _____

b. _____

c. _____

11. To record cash received from customers, you could use a:

    a. customer account form.

    b. business check.

    c. sales slip.

    d. customer billing form.

12. To find the amount left in your bank account, you could look at a:

    a. business check.

    b. check stub.

    c. daily cash sheet.

    d. statement of financial need.

13. Which formula can be used to figure out how much money you made in net profit in your service business?

    _____ a. Revenues - Expenses

    _____ b. Expenses - Revenues

    _____ c. Revenues - Cost of goods sold

    _____ d. $\frac{\text{Profit}}{\text{Revenues}}$

    _____ e. $\frac{\text{Expenses}}{\text{Revenues}}$

14. List three types of people whom you could use as business advisors in your business.

    a. _____

    b. _____

    c. _____

15. List three reasons for keeping financial records.

    a. _____

    b. _____

    c. _____

16. List three types of operating expenses in a business.

a. _____

b. _____

c. _____

17. List three things you could do in a clothing store to increase your revenues.

a. _____

b. _____

c. _____

18. Place the following steps in planning a business in the right order by numbering them 1-4.

_____ writing a business description

_____ choosing a business location

_____ applying for a bank loan

_____ choosing products or services

19. Below is a list of business forms and a set of phrases describing ways they may be used. Choose the best use for each form and write the letter in the blank provided.

Business Form	Used in:
_____ purchase order	a. Finding out how much product you have left
_____ job description	b. Hiring workers
_____ work order	c. Choosing suppliers
_____ work schedule	d. Organizing workers
_____ inventory card	e. Recording retail sales
	f. Buying goods for your business
	g. Writing down the services a customers wants

20. Below is a list of financial statements and a set of phrases describing ways they may be used. Choose the best use for each form and write the letter in the blank provided.

Financial Statement	Used in:
_____ Statement of financial need	a. Deciding if you can pay your bills next month
_____ Profit/loss statement	b. Listing the money you want to borrow
_____ Projected cash flow statement	c. Recording a customer's payment and debts
	d. Figuring out an expense ratio

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PROJECT PRODUCTS

Entrepreneurship Training Components

Vocational Discipline	Module Number and Title
General	Module 1 - Getting Down to Business: What's It All About?
Agriculture	Module 2 - Farm Equipment Repair
	Module 3 - Tree Service
	Module 4 - Garden Center
	Module 5 - Fertilizer and Pesticide Service
	Module 6 - Dairy Farming
Marketing and Distribution	Module 7 - Apparel Store
	Module 8 - Specialty Food Store
	Module 9 - Travel Agency
	Module 10 - Bicycle Store
	Module 11 - Flower and Plant Store
	Module 12 - Business and Personal Service
	Module 13 - Innkeeping
Health	Module 14 - Nursing Service
	Module 15 - Wheelchair Transportation Service
	Module 16 - Health Spa
Business and Office	Module 17 - Answering Service
	Module 18 - Secretarial Service
	Module 19 - Bookkeeping Service
	Module 20 - Software Design Company
	Module 21 - Word Processing Service
Occupational Home Economics	Module 22 - Restaurant Business
	Module 23 - Day Care Center
	Module 24 - Housecleaning Service
	Module 25 - Sewing Service
	Module 26 - Home Attendant Service
Technical	Module 27 - Guard Service
	Module 28 - Pest Control Service
	Module 29 - Energy Specialist Service
Trades and Industry	Module 30 - Hair Styling Shop
	Module 31 - Auto Repair Shop
	Module 32 - Welding Business
	Module 33 - Construction Electrician Business
	Module 34 - Carpentry Business
	Module 35 - Plumbing Business
	Module 36 - Air Conditioning and Heating Service

Related Resources

Resource Guide of Existing Entrepreneurship Materials

Handbook on Utilization of the Entrepreneurship Training Components